Scheme Report of the Independent Expert on the proposed transfer of insurance business from

Catalina London Limited and AGF Insurance Limited to Catalina Worthing Insurance Limited

in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

12 July 2022

Prepared by

Stewart Mitchell FIA

LCP

Contents

1. Executive summary

Catalina Holdings UK Limited (Catalina UK) proposes that its subsidiaries AGF Insurance Limited (AGF) and Catalina London Limited (CLL) transfer their insurance and reinsurance business to Catalina Worthing Insurance Limited (CWIL) pursuant to a Part VII transfer (the Proposed Transfer).

A Part VII transfer, also known as an insurance business transfer scheme, is a transfer of business or parts of a business under Part VII of the Financial Services & Markets Act 2000 in the UK. Part VII transfers are a common tool used by insurance businesses to address required business transformation.

The purpose of the Proposed Transfer is to consolidate and simplify Catalina UK's regulated insurance businesses into one insurance company in order to increase operational efficiency, reduce duplication and facilitate the efficient deployment of capital across Catalina's UK operations. This is intended to support both: (i) the management of the run-off of the existing portfolios of the Transferors and CWIL; and (ii) the acquisition and integration of additional portfolios going forwards.

1.1. The Proposed Transfer

The firms involved

Catalina UK is the sole shareholder of AGF, CLL and CWIL.

Catalina UK's sole shareholder is Catalina General Insurance Limited (CatGen).

Catalina UK's ultimate parent is Catalina Holdings (Bermuda) Limited (CHBL).

Catalina UK operates the three firms on a consistent and unified basis. There are common boards and committees for each firm. All UK staff are employed by Catalina Services UK Limited (CSUK), which is a subsidiary of Catalina UK.

The change in control for Catalina UK, where CatGen became the immediate parent of Catalina UK rather than Catalina Alpha Ltd, was approved by the PRA and BMA and executed on the 29 April 2022.

The Transferring Business

It is proposed that all the liabilities of AGF and CLL (the Transferring Business) will transfer to CWIL via the Proposed Transfer on 30 November 2022. All rights and obligations of AGF and CLL relating to the Transferring Business will also be transferred to CWIL.

The transferring liabilities of AGF include UK Employer's Liability (EL) business including mesothelioma and asbestos exposures and abuse claims.

The transferring liabilities of CLL include US Asbestos, Pollution & Health (APH), UK Employer's Liability (EL) business including mesothelioma and asbestos exposures and sexual abuse claims.

Based on its claims system records, CSUK has identified the following numbers of policyholders with open claims as at 31 December 2021:

- AGF has outstanding loss or case reserves of £23.3m held against 523 policies relating to an estimated 479 policyholders;
- CLL has outstanding loss or case reserves of $18.9m held against 595 policies relating to an estimated 155 policyholders; and
- CWIL has outstanding loss or case reserves of £128.0m held against 6,898 policies relating to an estimated 1,019 policyholders.

The true number of policyholders is likely to be higher, but it is not possible or practicable to identify every policyholder with business written going back as far as the 1910s.

All policyholders of AGF and CLL will transfer to CWIL ie no policyholders will be left in AGF and CLL. Assets above the 140% solvency capital requirement coverage ratio (see section 6.1) will remain in AGF and CLL at the point of the Proposed Transfer but all other assets will transfer to CWIL. It is intended that CLL and AGF will be de-authorised following the Effective Date of the Proposed Transfer and following this the retained assets are intended to be paid out as dividends at a later date.

More background on AGF, CLL and CWIL is provided on section 3.

Effective Date

The High Court hearing at which the Court will consider whether or not to approve the Proposed Transfer (the Sanctions Hearing) is expected to be on the 18 November 2022 with the Effective Date of the Proposed Transfer being 30 November 2022.

The nature of the transferring liabilities

The transferring portfolios and CWIL are exposed to latent diseases including asbestos-related diseases. It can take 40 years or more before symptoms of asbestos-related diseases emerge. Such diseases are often fatal, and compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future, although the number of claims notifications is reducing as the portfolios have been in run-off for a material length of time. There remains however a high degree of uncertainty in the valuation of the reserves for the Transferring Business.

The portfolios are also exposed to other claims that will take a long time to emerge and settle eg pollution and sexual abuse claims.

Reinsurance

Reinsurance is an arrangement with another insurer (the reinsurer) to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

AGF has a limited reinsurance programme in force with c. 9% of gross reserves recoverable from reinsurers as at 31 December 2021. There are 22 reinsurers of AGF's business with either an outstanding balance or allocated reserves, with the most material balances with three reinsurers.

CLL has a material outwards reinsurance programme with c. 43% of gross reserves recoverable from reinsurers as at 31 December 2021. There are 97 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

CWIL has around 450 live external reinsurers with live reinsurance contracts, most of which are not material. The most material external reinsurer is Equitas (Berkshire Hathaway). CatGen also provides an 80% quota share reinsurance of CWIL's whole book. This will remain in place following the Proposed Transfer, but will exclude the transferring liabilities from AGF and CLL. The quota share is collateralised externally at 120% of undiscounted net reserves and covers any bad debt arising from any external reinsurance.

Policyholder service levels

Claims for AGF, CLL and CWIL are currently managed by CSUK, either in-house or through third party outsourced claims handling entities. Following the Proposed Transfer, claims handling will continue to be managed by CSUK for the combined CWIL entity. CSUK has confirmed there will be no change in policyholder service levels post-transfer as the Transferring Business will continue to be administered by the same employees of CSUK or the same outsourced service providers as before the Proposed Transfer.

1.2. My role as Independent Expert

Catalina UK has appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to the policyholders of AGF, CLL and CWIL will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of AGF or CLL covering the Transferring Business will be materially adversely affected by the Proposed Transfer.

This report is my Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new material or issues that arise including any objections raised by any interested parties.

1.3. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following five groups of stakeholders:

- 'Transferring AGF Policyholders', ie AGF policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer (being all policyholders of AGF).
- 'Transferring CLL Policyholders', ie CLL policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer (being all policyholders of CLL).
- Existing CWIL Policyholders', ie all policyholders of CWIL immediately prior to the Proposed Transfer, who will remain with CWIL after the Proposed Transfer.
- Reinsurers of AGF covering the Transferring Business.
- Reinsurers of CLL covering the Transferring Business.

No policyholders will remain insured by AGF or CLL after the Proposed Transfer.

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms are defined in section 4).

Transferring AGF Policyholders

AGF's records indicate that as at 31 December 2021 there were 2,787 policies that had claims recorded against them (including paid claims). The true number of policyholders is materially higher given the business written goes back to the 1910's and includes EL exposure. It is impossible or impractical to identify all individual policyholders, this is discussed in section 8. The Transferring Business of AGF represents 100% of AGF's projected GAAP technical provisions as at the Effective Date.

I have concluded that the security provided to Transferring AGF Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material adverse impact on service standards is expected for Transferring AGF Policyholders following the Proposed Transfer.

Summary rationale:

- The Transferring AGF Policyholders will remain within the Catalina group and CWIL is subject to the same group-wide policies as AGF.
- The impracticality of identifying the true number of policyholders does not lead me to conclude that the Transferring AGF Policyholders are materially disadvantaged by the Proposed Transfer as all valid claims will continue to be paid.
- Catalina UK has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.
- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business from AGF are appropriate and Catalina UK has confirmed that these will be materially unchanged post-transfer.
- AGF's provisions as at 30 June 2021 are higher (and therefore more prudent) than those of an independent external review.
- The SCR coverage ratio for Transferring AGF Policyholders is expected to increase from 179% (AGF pre-transfer) to 200% (CWIL post-transfer) as a result of the Proposed Transfer. As such, I do not consider the security provided to Transferring AGF Policyholders to be materially adversely affected by this change in SCR coverage ratio. CWIL will be very well capitalised and the coverage ratio remains above Catalina UK's risk appetite.
- Further, CWIL is expected to be well capitalised and above Catalina UK's risk appetite throughout the projected period to December 2024.
- I have been provided with evidence that CatGen, a significant reinsurer of CWIL's existing business, is well capitalised. Reinsurance recoveries due from CatGen are collateralised at 120% of undiscounted net reserves.
- I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. For the scenarios considered, the Transferring AGF Policyholders are better protected post-transfer than pre-transfer. Given this, Transferring AGF Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios as discussed in sections 6.5 and 6.10.
- The Transferring AGF Policyholders will not lose access to any benefits or guarantees as a result of the Proposed Transfer.
- CWIL is a UK authorised insurer so the Transferring AGF Policyholders will continue to be regulated in the UK following the Proposed Transfer. The rights of the policyholders in respect of access to the FSCS or FOS will not change as a result of the Proposed Transfer.
- CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This means there will be no change to the claims experience and there is continuity of service for Transferring AGF Policyholders.

Transferring CLL Policyholders

CLL's systems have c.118,000 policies recorded but only 15% policies have an identifiable policyholder or cedant name. In addition, there are no policy records for some of the business written by externally managed pools. Given this, it is impractical to identify all individual policyholders. This is discussed in section 8. The Transferring Business of CLL represents 100% of CLL's projected GAAP technical provisions as at the Effective Date.

I have concluded that the security provided to Transferring CLL Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material adverse impact on service standards is expected for Transferring CLL Policyholders following the Proposed Transfer.

Summary rationale:

- The Transferring CLL Policyholders will remain within the Catalina UK group and CWIL is subject to the same group-wide policies as CLL.
- The impracticality of identifying the true number of policyholders does not lead me to conclude that the Transferring CLL Policyholders are materially disadvantaged by the Proposed Transfer as all valid claims will continue to be paid.
- Catalina UK has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.
- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business from CLL are appropriate and Catalina UK has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring CLL Policyholders is expected to decrease from 327% (CLL pre-transfer) to 200% (CWIL post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring CLL Policyholders to be materially adversely affected by this by this change in SCR coverage ratio as CWIL will be very well capitalised and the coverage ratio remains above Catalina UK's risk appetite.
- The decrease in SCR coverage ratio from 327% to 200% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 327% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, CWIL is expected to be well capitalised and above Catalina UK's risk appetite throughout the projected period to December 2024.
- I have been provided with evidence that CatGen, a significant reinsurer of CWIL's existing business, is well capitalised. Reinsurance recoveries due from CatGen are collateralised at 120% of undiscounted net reserves.
- I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. The impact of each scenario on the SCR coverage ratio is broadly similar for CLL pre-transfer and CWIL post-transfer, although the CLL ratios are higher in each case. CLL is much smaller than CWIL and therefore more exposed to volatility. CLL will have the protection of a much larger balance sheet post-transfer and claims will still be paid in the scenarios I considered, even without the mitigation of any management actions.
- Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios, as discussed in sections 6.5 and 6.10.
- The Transferring CLL Policyholders will not lose access to any benefits or guarantees (eg US Trust Funds or ILU guarantees) as a result of the Proposed Transfer.

- CWIL is a UK authorised insurer so the Transferring CLL Policyholders will continue to be regulated in the UK following the Proposed Transfer. The rights of the policyholders in respect of access to the FSCS or FOS will not change as a result of the Proposed Transfer.

- CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This means there will be no change to the claims experience and there is continuity of service for Transferring CLL Policyholders.

Existing CWIL Policyholders

CSUK has identified c. 188k different policyholder codes for CWIL policies in their system. There are likely to be multiple codes for the same policyholder, and also considerable policyholder consolidation since the policies were input to the system, but also not all policies will be on the system. Therefore, the true number of Existing CWIL Policyholders as at the Effective Date may be materially higher but it is impractical to identify all individual policyholders given the business was written many years ago. This is discussed in section 8. The Transferring Business of AGF and CLL represent 42% and 6% respectively of CWIL's UK GAAP booked provisions net of third party reinsurance as at 31 December 2021.

I have concluded that the security provided to Existing CWIL Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material adverse impact on service standards is expected for Existing CWIL Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for CWIL are appropriate, and Catalina UK has confirmed that these will be materially unchanged post-transfer.
- An independent external review of CWIL's provisions was performed as at 30 June 2021. Although CWIL's technical provisions are lower than those of the external reviewer, they are within the range of reasonable best estimates provided by the reviewer.
- The reserving process and governance for CWIL will be materially unchanged post-transfer.
- The SCR coverage ratio for CWIL Policyholders is expected to decrease from 244% to 200% as a result of the Proposed Transfer. I do not consider the security provided to Existing CWIL Policyholders to be materially adversely affected by this by this change in SCR coverage ratio as CWIL will still be very well capitalised.
- The decrease in SCR coverage ratio from 244% to 200% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 244% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, CWIL is projected to remain well capitalised throughout the projected period to 31 December 2024.
- Catalina UK plan to transfer a portfolio of legacy EL business from Zurich Insurance Plc into CWIL in 2024 or 2025, but this would be subject to the approval of the Court in a separate Part VII transfer process and so does not impact my conclusions regarding the Proposed Transfer.
- CWIL intends to pay a dividend of £42m during 2023. This would reduce the SCR coverage ratio to 167%. My conclusions would be unchanged if the dividend were to be paid as this would not lead to a material difference in the probability of insolvency and CWIL would still be well capitalised. The SCR coverage ratio is projected to increase to 177% by 31 December 2023 and 194% by 31 December 2024. The payment of any dividend would require approval from the PRA.
- CWIL has a collateralised 80% quota share reinsurance with CatGen.
- I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. For the scenarios considered, the Existing CWIL Policyholders are either better protected post-transfer than pre-transfer, or there is no material difference, and in the scenarios I considered claims can still be paid, even without the mitigation of any management actions. Given this, I conclude that Existing CWIL Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios, as discussed in sections 6.5 and 6.10.

- CWIL is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing CWIL Policyholders are serviced following the Proposed Transfer.

Reinsurers of AGF covering the Transferring Business

I have considered the position of the reinsurers of AGF who provide cover for the Transferring Business.

There are 22 reinsurers of AGF's business with either an outstanding balance or allocated reserves, with the most material balances with three reinsurers.

I have concluded that reinsurers of AGF who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The reinsurers of AGF will be exposed to and pay the same claims both pre- and post-transfer whether or not the Proposed Transfer goes ahead.
- All of AGF's reinsurers with outstanding balances or allocated reserves will be informed of the Proposed Transfer.

Reinsurers of CLL covering the Transferring Business

I have considered the position of reinsurers of CLL who provide cover for the Transferring Business.

There are 97 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

I have concluded that reinsurers of CLL who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The reinsurers of CLL will be exposed to and pay the same claims both pre- and post-transfer whether or not the Proposed Transfer goes ahead.
- All of CLL's reinsurers with outstanding balances or allocated reserves will be informed of the Proposed Transfer.

1.4. Impact of COVID-19 on the Proposed Transfer

The transferors and transferee have been in run-off for some time and therefore the potential impacts of COVID-19 are mitigated.

Potential impacts on the transferor and transferee portfolios include:

- A possible increase in claims costs due to reduced access to healthcare, given the strain on health systems caused by the pandemic.
- A possible increase or decrease in costs if new treatments are developed as a consequence of medical advances made through the research and development of COVID-19 vaccines.
- Possible delays in diagnoses, claims reporting and settlement of claims, which could increase or decrease costs.
- A potential acceleration in claims if sufferers of an occupational disease such as mesothelioma die of COVID-19 and if mesothelioma is deemed to be a material contributor to such deaths.
- A decrease in future claims if people who would otherwise have gone on to contract asbestos related disease die from COVID-19 before diagnosis.

CSUK's claims teams have made the following observations relating to the impact of COVID-19:

- There has been a slowdown in US abuse claims notifications, along with a backlog in settlements due to US Court closures. This will impact the timing of the claims pay out, but it does not impact the ultimate settlement values.
- On the UK EL business, there are no emerging trends observed due to COVID-19, other than a small drop-off in claims notifications early on in the pandemic, followed by an uptick more recently ie a catch-up effect. There could be fewer mesothelioma deaths in the future as some people who may have developed mesothelioma could have died of COVID-19.

Even if some more of the potential impacts above were to materialise, the impact on the reserves for the Transferring Business would be unlikely to be material relative to the reserving scenarios presented in section 6.10. These scenarios include a consideration of deterioration in the level of reserves.

My view is that although the impact of the pandemic is uncertain, the impact on the transferors' and transferee's portfolios is not material compared to the overall uncertainty in these portfolios.

CSUK has informed me that there are no operational issues arising from COVID-19 that have impacted or are expected to impact policyholders, including the level of service provided to policyholders. Catalina UK's experience of the pandemic has demonstrated that staff can work and access the required systems and services remotely.

In my opinion, the COVID-19 pandemic does not change my overall conclusions as set out in section 1.3.

1.5. Impact of climate change

As the business written has been in run-off for some time, there is no exposure to an increase in the frequency or severity of natural catastrophes, the most obvious impact of climate change.

However, it is possible that the reserves could be impacted by climate change given the uncertainty and far-reaching impacts it may continue to have. Examples of areas that could be impacted include latent liability claims and changes in social behaviour, which in turn could drive an increase in claims frequency or severity.

Overall, my view is that the potential impact of climate change on the business written by AGF, CLL and CWIL is less significant than other risks considered in this report and therefore does not affect my conclusions.

1.6. Next steps

The remainder of this report sets out my conclusions and other supporting information in more detail.

I will be reviewing these conclusions and preparing a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise and any objections received from interested persons.

Specific issues that I have highlighted in this report which require further review include:

- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update from the AWP regarding trends in asbestos claims;
- Any update on Catalina UK's capital management plans, including capital extraction plans;
- Any update on CWIL's quota share reinsurance with CatGen;
- The impact of any commutation of CLL's reinsurance of AGF's liabilities; and
- Any policyholder objections received.

2. Introduction

2.1. Background

Part VII, Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the High Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

This report is the Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

2.2. Independent Expert appointment

My appointment

Catalina UK has appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. Catalina UK will bear the costs associated with the production of my report. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am certified to act as a Signing Actuary for Statements of Actuarial Opinions for Lloyd's.

I am a Partner in the Insurance Consulting practice at Lane Clark & Peacock (LCP) and have almost 35 years' experience in general insurance.

I have experience in a wide range of areas of general insurance actuarial work including reserving, capital, pricing and transactions.

I have acted as the IE on five previous Part VII transfers, the Independent Actuary on one Section 13 transfer (the Irish equivalent of a Part VII transfer) and have been the peer reviewer on a number of other insurance Part VII and Section 13 transfers.

Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I, Stewart Mitchell, and all members of the LCP team assisting me in my IE role are independent from the parties to the transfer and that I am able to act as the IE.

I confirm that neither I, nor any of the team, have any direct or indirect interests in the following (the firms), either personally or via LCP:

- Catalina Worthing Insurance Limited
- AGF Insurance Limited
- Catalina London Limited
- Catalina Services UK Limited
- Catalina Holdings UK Limited
- Catalina General Insurance Limited
- Catalina Holdings (Bermuda) Limited

In particular:

- Neither I, nor any member of the team, is a shareholder in the firms or subsidiaries nor a member of any pension scheme under the management of any of these entities.
- Neither I, nor any member of the team, hold any insurance policies issued by the firms or any subsidiaries.
- LCP has not previously performed any work for the firms.

2.3. Scope of this Scheme Report

Appendix 2 contains an extract from my terms of reference, which defines the scope of my work in relation to the Proposed Transfer. The actual work performed is in line with this agreed scope.

This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of AGF, CLL and CWIL, and reinsurers of the Transferring Business. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

The use of I, me and my in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion, it is mine and mine alone.

For presentational purposes some GBP amounts in this report have been converted to USD at an exchange rate of £1 = USD1.35.

2.4. Use of this Scheme Report

This Scheme Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreements with Catalina UK. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the PRA and the FCA and will accompany the Scheme application to the High Court. It will also be made available at www.catalinaworthing.co.uk/PartVII.html for policyholders and other interested parties.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

2.5. Reliances

I have based my work on the data and other information made available to me by Catalina UK, AGF, CLL and CWIL. Appendix 4 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of CSUK and their advisors.

My analysis is based on data from various dates including 30 June 2021 and 31 December 2021. Prior to the Sanctions Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on any new material or issues that arise, and based on updated data where appropriate.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- A witness statement will be submitted on behalf of AGF, CLL and CWIL to the High Court stating that all information provided to me by AGF, CLL and CWIL is correct and not misleading to the best of their knowledge and belief.
- A director of AGF, CLL and CWIL has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- A director of AGF, CLL and CWIL has provided attestations that there have been no material adverse changes to the financial position of CLL, AGF or CWIL since that information was provided to me.
- Members of Catalina UK's project steering group on behalf of AGF, CLL and CWIL have read this IE Scheme Report and have agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data and results provided to me for internal consistency and reasonableness but I have not checked them in detail.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for the purpose of this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

I have not considered it necessary to take any independent third-party legal advice on any aspects of the Proposed Transfer.

I understand that it is customary for the parties to a Part VII transfer to obtain a legal opinion in respect of the enforcement of a Part VII transfer in the United States where there is a material proportion of written and/or ceded business that relates to the United States and is proposed to transfer under Part VII of FSMA. This is the case for the Proposed Transfer.

I have been provided with a copy of such an opinion obtained by Catalina UK on behalf of AGF, CLL and CWIL from a reputable U.S. law firm, which states that it is reasonable to conclude that the Proposed Transfer would be recognised by courts in the United States on the grounds of comity. I have read the opinion and see no reason to question its conclusions.

Catalina UK has confirmed that it has received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.6. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Policy Statement (PS1/22 dated January 2022), the FCA's Finalised Guidance on their approach to the review of Part VII transfers (FG22/1 dated 15 February 2022) and by the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

I have considered The Actuaries' Code as issued by the IFoA while producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have appropriate experience and expertise to act as peer reviewer of this report, and have themselves acted as an Independent Expert.

2.7. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Scheme Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.8. Definition of materially adverse

In order to determine whether the Proposed Transfer will have a materially adverse impact on any group of policyholders or on any reinsurers covering the Transferring Business, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a materially adverse impact, I have considered the aggregate impact of these different effects on each group of policyholders and reinsurers covering the Transferring Business.

In the Court of Appeal judgment in the Prudential v Rothesay case, the judge commented on the word 'material' and drew the distinction between 'real' and 'fanciful' risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected. Throughout this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders and reinsurers of the Transferring Business are materially adversely affected or otherwise.

3. Outline of Proposed Transfer

3.1. The firms involved

AGF Insurance Limited (AGF) - transferor

AGF is a UK regulated insurance company acquired by Catalina UK on 10 October 2016 from AGF Holding UK Limited, a subsidiary of Allianz SE.

AGF was incorporated in 1960 under the name National Employers Mutual Insurance Company (NEM). NEM was sold to AGF SA in 1989 and in 1990 acquired the UK agency and operations of National Employers Mutual General Insurance Association (NEMGIA). As a result of this acquisition, AGF has potential for exposure going back as far as 1914.

In 1991 the company was renamed AGF Insurance Ltd (AGF) and they ceased writing business on 31 December 1998. At this time, selected renewals were transferred to Allianz following the acquisition by Allianz of AGF SA.

None of AGF's transferring liabilities relate to US exposures.

Catalina London Limited (CLL) - transferor

CLL is a UK regulated insurance company acquired by Catalina UK in 2009. At the time of that purchase, the company's name was Alea London Limited. CLL ceased writing business in 2005. Its liabilities are made up of both direct insurance and reinsurance business.

CLL's direct insurance business was written through managing general agents between 2000 and 2005 by Alea London while the reinsurance liabilities relate both to business written through Alea London and the Imperial Fire and Marine Reinsurance Company (the Imperial Re book).

In 2017 CLL acquired the business of KX Reinsurance Company Limited (KX Re) and OX Reinsurance Company Limited (OX Re) via a Part VII transfer.

CLL's liabilities arising from asbestos exposure for 1990 and prior from the Imperial Re book are reinsured via a 100% quota share with CatGen.

Just over half of the transferring CLL liabilities relate to US exposures. It is not possible to estimate how much of CLL's liabilities are governed by English law or not due to incomplete policyholder records eg business written through delegated authorities and other third parties. The majority of known liabilities are subject to US law by value, and to UK law by number of policies. In any case, CWIL has confirmed that they will pay all valid claims whether they are subject to English law, US law or any other jurisdiction.

Catalina Worthing Insurance Limited (CWIL) – transferee

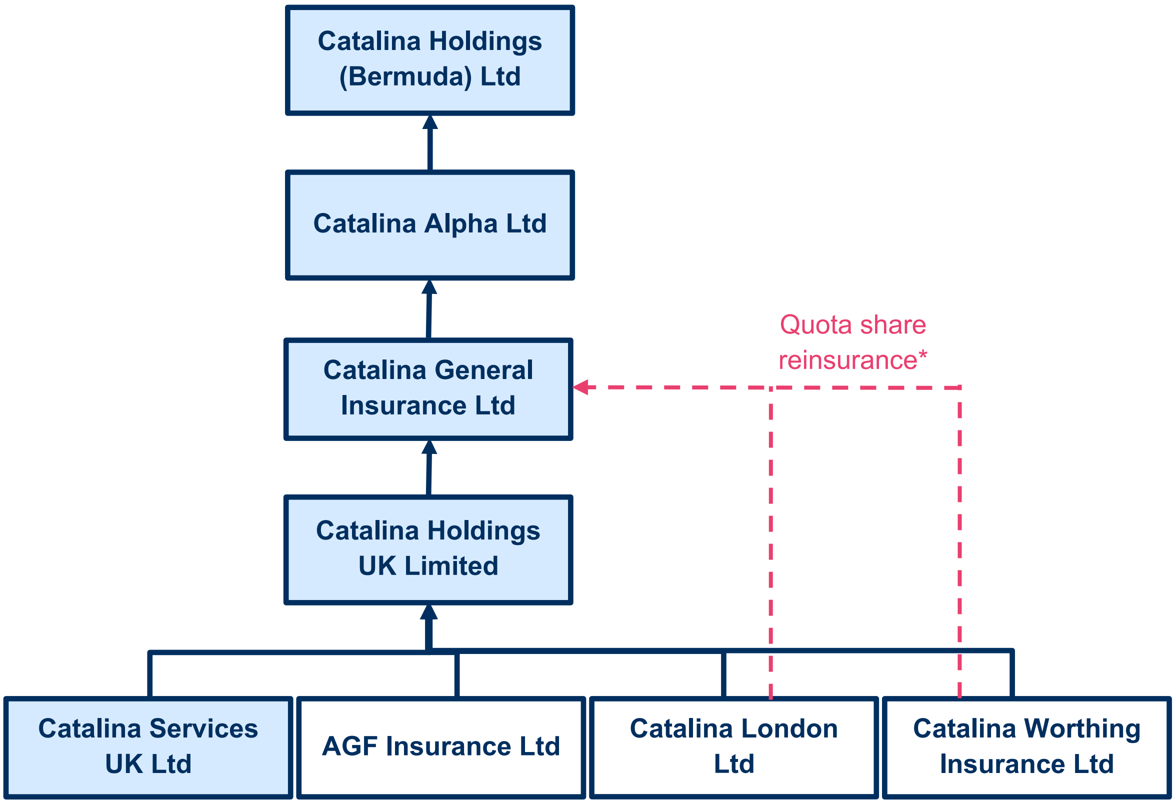
CWIL is a UK regulated insurance company of Catalina UK, acquired by Catalina UK on 10 May 2017. At the time of that purchase, the company's name was changed to its current name from Hartford Financial Products International Limited (HFPI).

CWIL comprises the following four insurance portfolios that are in run-off:

- US asbestos and US pollutions insurance written by Excess Insurance Company Limited (EICL) and EICL's portfolio of direct employer's liability business, which entered into run-off from 1 January 1993.
- A portfolio of business originally written by London & Edinburgh General Insurance Company Limited (L & E). This portfolio went into run-off in 1992.
- The portfolio of Directors and Officers insurance business, written by Hartford Financial Products International Limited (HFPI). This business was underwritten between 2007 and 2012 and transferred to CWIL in 2017.
- Motor and other long tail business written by the UK branch of Hartford Fire Insurance Company (Hart Re). This business went into run-off in 2001.

AGF, CLL and CWIL have the same board and executive management team and operate under the same group-based policies and procedures, including capital and investment policy. No changes to management, administration or claims handling are planned following the Proposed Transfer.

The diagram below illustrates the corporate structure of the Catalina UK firms prior to the Proposed Transfer.



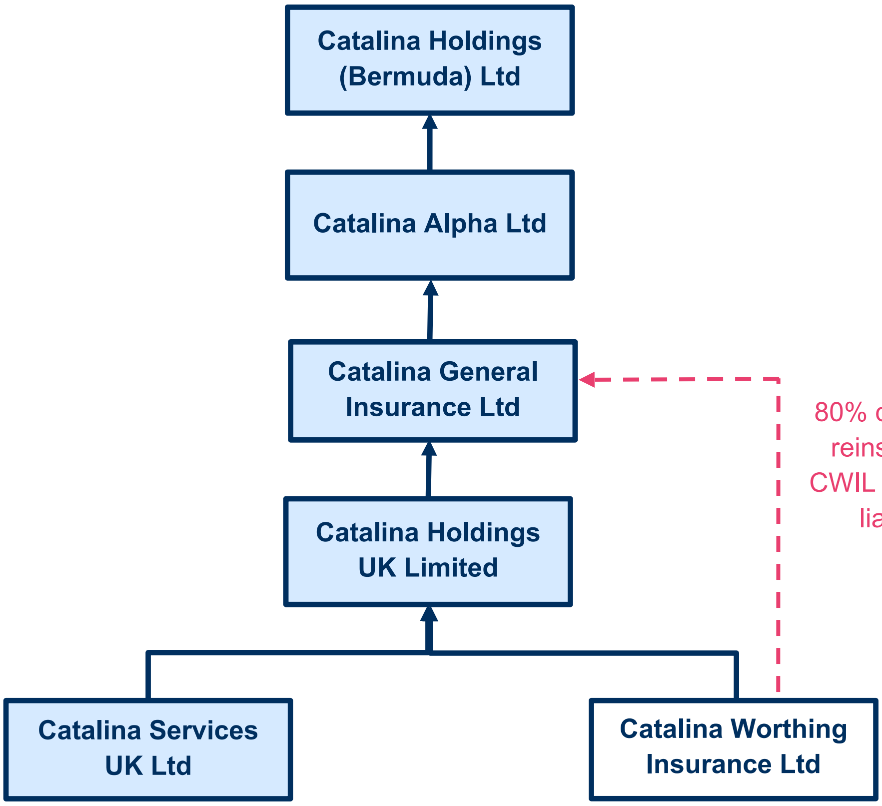
*CWIL has in place an 80% quota share reinsurance arrangement with CatGen.

*As stated above, the liabilities from the Imperial Fire and Marine Reinsurance Company arising from 1990 and prior years are ceded to CatGen through a 100% quota share arrangement.

The Catalina Group was established in 2007. The group Financial Condition Report as at 31 December 2021 is not yet available but Catalina UK has advised us that it contains the following numbers: reported eligible capital of $1.56bn, an enhanced capital requirement of $0.87bn and a group Bermuda SCR coverage ratio of 178%.

As at 31 December 2021, CatGen had total assets of $4.63bn, total liabilities of $3.56bn and shareholder's equity of $1.07bn.

The diagram below illustrates the structure of the entities following the Proposed Transfer.



*The 100% quota share arrangement covering CLL's liabilities from the Imperial Re book arising from 1990 and prior years will remain in place post-transfer.

*It is intended that following the Proposed Transfer AGF and CLL are de-authorised with remaining assets distributed. Following this, Catalina UK plans to wind up AGF and CLL.

3.2. Description of the Proposed Transfer

The Transferring Business

AGF wrote a wide range of general insurance classes, then went into run-off from 1 January 1999. The remaining liabilities are predominantly UK Employer's Liability (EL) business, including mesothelioma and asbestos exposures and a small amount of Public Liability (PL) sexual abuse claims.

CLL's exposure includes:

- A number of liability classes written through Alea including General Liability, Workers' Compensation and Construction Defect. It also has exposure to UK EL, through reinsurance of AGF, and US asbestos and pollution.
- KX Re's liabilities, predominantly from underwriting years 1978 and prior. The liabilities from KX Re comprise mostly latent claims, including US Asbestos, environmental pollution and other health hazard claims. The remaining claims arise from long-tailed liabilities and London Market Excess of Loss (LMX) claims.
- OX Re's liabilities (formerly Oslo Re a subsidiary of KX Re), consisting of two reserve segments, Community Re and Willis Faber (Underwriting Management) Limited (WFUM). The liabilities from Community Re are a mixture of property and casualty classes, written between 1981 and 1983. The liabilities from WFUM are predominantly UK Employers' Liability claims, typically relating to retail, estates and light manufacturing. There are no case reserves for WFUM.

As set out in section 1, the Transferring Business) includes all liabilities of AGF and CLL. All rights and obligations of AGF and CLL relating to the Transferring Business will also be transferred to CWIL.

Based on its claims system records, CSUK has identified the following numbers of policyholders as at 31 December 2021:

- AGF has case reserves currently held against 523 policies, impacting 479 policyholders; and
- CLL has case reserves currently held against 595 policies, impacting 155 policyholders.

The actual number of policyholders is materially higher, but it is not practical to identify every policyholder with business written going back as far as the 1910s.

All policyholders of AGF and CLL will transfer to CWIL, no policyholders will be left in AGF and CLL. Assets above the 140% solvency capital requirement coverage ratio will remain in AGF and CLL at the point of the Proposed Transfer but all other assets will transfer to CWIL.

Catalina UK has confirmed that, on consolidation of the UK business into CWIL, there will be no change in the approach to investments. On transfer the investment team will ensure that the assets transferred into CWIL are such that CWIL remains compliant with its Strategic Asset Allocation and the key principles are met (see section 9.4).

The Scheme Document makes provision for any residual policies ie those that cannot be transferred on the Effective Date for any reason.

An order for the dissolution of AGF and CLL will not be sought as part of the Proposed Transfer. The entities themselves will still exist for a period of time post-transfer, although the intention is still ultimately to de-authorise, distribute the retained assets and then wind them up.

Effective Date

The Sanctions Hearing for the Proposed Transfer is expected to be on the 18 November 2022 with the Effective Date of the Proposed Transfer being 30 November 2022.

Reinsurance

Reinsurance is an arrangement with another insurer (the reinsurer) to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

Quota share is a common type of reinsurance arrangement, where an insurer shares a set proportion of premiums and claims with the reinsurer.

Excess of loss reinsurance is another type, where the portion of claims above a certain defined level is passed onto the reinsurer.

There are 22 reinsurers of AGF's business with either an outstanding balance or allocated reserves, with the most material balances with three reinsurers.

CLL has 97 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

CWIL has around 450 external reinsurers with live reinsurance contracts, most of which are not material, the most material reinsurer being Equitas (Berkshire Hathaway). CatGen provides an 80% quota share reinsurance of CWIL's whole book. This will remain in place following the Proposed Transfer, but will exclude the transferring liabilities from AGF and CLL.

All of AGF's and CLL's reinsurers with outstanding balances or allocated reserves will be informed of the Proposed Transfer.

Policyholder service levels

CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. None of the service level agreements or contracts between AGF, CLL, CWIL and CSUK, or between CSUK and any outsourced claims handling provider will change as a result of the

Proposed Transfer. This means there will be no change to the claims experience and there is continuity of service for all groups of policyholders.

3.3. Purpose of the Proposed Transfer

The purpose of the Proposed Transfer is to consolidate and simplify Catalina UK's regulated insurance businesses into one insurance company in order to increase operational efficiency, reduce duplication and facilitate the efficient deployment of capital across Catalina's UK operations. This is intended to support both: (i) the management of the run-off of the existing portfolios of the Transferors and CWIL; and (ii) the acquisition and integration of additional portfolios going forwards.

3.4. Alternative options considered

Catalina UK considered alternatives to the Proposed Transfer, including:

- A Part VII transfer of only one entity ie CLL into CWIL, leaving AGF as a standalone entity
- No change to current structure and to seek capital extractions from the existing entities.

Transferring only one of the two entities into CWIL would not have the same operational or capital benefits that Catalina UK is seeking compared to consolidating all three.

By seeking capital extractions, rather than a transfer, alongside seeking to vary the quota share arrangements with CatGen, would require multiple related party transaction notifications and none of the operational benefits and efficiencies sought from the Proposed Transfer would be achieved.

Therefore, Catalina UK concluded that the Proposed Transfer was the best way of achieving their objectives.

There is no impact of Brexit on the Proposed Transfer. There are a small number of direct French claims but France has enacted legislation permitting the performance of post-Brexit claims until expiry.

3.5. Future transfers

As part of its longer-term planning, Catalina UK is also preparing to transfer the pre-2007 EL liabilities of Zurich Insurance Plc into CWIL. The transfer is planned to be effective in 2024 or 2025. The liabilities are currently reinsured by CatGen.

However, the Proposed Transfer is not dependent upon or conditional on this or any other future transfer of business. The transfer of the Zurich EL liabilities will be subject to a separate and independent Part VII scheme.

3.6. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- The transfers of the AGF and the CLL business are interdependent, in that the Proposed Transfer will only go ahead if both portfolios transfer at the Effective Date.
- High Court approval is required for the Proposed Transfer – an initial hearing for directions in relation to the approach of publicising the Proposed Transfer (the Directions Hearing) is scheduled for 20 July 2022 and the Sanctions Hearing is scheduled for the 18 November 2022. The High Court will take into account whether the PRA and FCA have any objections to the Proposed Transfer.
- Any objections raised by any person claiming to be adversely affected by the Proposed Transfer after the Directions Hearing – I will comment on these (if any) in my Supplementary Report.

The contingency In the event of the Proposed Transfer not going ahead is for policies to remain with AGF and CLL. Catalina UK would then seek to extract capital from AGF and CLL which would require regulatory approval.

4. My approach as IE

Overall role

As IE, my overall role is to assess whether:

- The security provided to policyholders of AGF, CLL or CWIL will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurers of AGF and CLL covering the Transferring Business will be materially adversely affected.

The five key affected parties

To make these assessments, I have considered the effect of the Proposed Transfer on the following five parties:

- Transferring CLL Policyholders, defined as CLL policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer.
- Transferring AGF Policyholders, defined as AGF policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer.
- Existing CWIL Policyholders, ie policyholders of CWIL immediately prior to the Proposed Transfer, who will remain with CWIL after the Proposed Transfer.
- Reinsurers of AGF covering the Transferring Business.
- Reinsurers of CLL covering the Transferring Business.

I understand that current and potential future third party claimants (Claimants) who make a claim against a policyholder, which would be covered by the policy, are also considered to be policyholders by the FCA and PRA, as are all potential beneficiaries of these policies (Beneficiaries). In drawing my conclusions, I have considered the impact of the Proposed Transfer on all potential Beneficiaries and Claimants, for example the employees of those companies who hold EL insurance policies with AGF, CLL and CWIL.

Five-step approach to analysing the Proposed Transfer

My approach to assessing the Proposed Transfer has been to perform the following five steps analysing evidence provided by AGF, CLL and CWIL to support the Proposed Transfer:

Step 1: Assessing the provisions of AGF, CLL and CWIL

The first important form of security that an insurer provides to policyholders is the level of provisions. Provisions are based on an estimate of the amount of money the insurer will need to pay policyholders' claims and to cover the other costs associated with running the insurer.

Therefore, I have assessed the appropriateness of the provisions included on AGF's, CLL's and CWIL's balance sheet and the approach to be used for the calculation of provisions for AGF, CLL and CWIL pre- and post-transfer. Details of this step are set out in section 5.

Step 2: Assessing the capital positions of AGF, CLL and CWIL

In addition to the level of provisions, insurers hold capital designed to withstand more extreme levels of claims and other adverse scenarios. The level of capital held is the second important form of security provided to policyholders.

For AGF, CLL and CWIL, the level of capital required is set under the UK Solvency II standard. A key regulatory solvency metric is the Solvency Capital Requirement. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome).

I have assessed the appropriateness of the projected capital requirements of AGF, CLL and CWIL. Details of this step are set out in section 6.

Step 3: Assessing overall policyholder security

Under this step, I have considered the level of provisions and capital (from steps 1 and 2) in the context of the assets held by each of AGF, CLL and CWIL and other forms of security such as compensation schemes.

For this analysis, I have considered the pre-transfer balance sheets of AGF, CLL and CWIL as well as the post-transfer pro-forma balance sheet for CWIL. Details of this step are set out in section 7.

Step 4: Assessing policyholder communications

I have assessed the appropriateness of Catalina UK's communication strategy to inform policyholders and other stakeholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. Details of this step are set out in section 8.

Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

I have considered how the level of customer service provided to policyholders could change following the Proposed Transfer. I have also considered a range of other factors that might affect policyholders, such as ongoing expense levels and tax implications. Details of this step are set out in section 9.

5. Reserving considerations

5.1. Introduction to insurance reserving

For an insurance firm, the primary purpose of reserving is to assess the provisions that need to be set in order to pay policyholders' claims and to cover the other costs associated with running an insurer.

Depending on how they are set, the provisions may be on a best estimate basis (ie with no deliberate optimism or pessimism) or include a margin for prudence (additional provisions to cover higher than expected claims). This is sometimes referred to as a management margin. Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis may indicate a single point estimate of the provisions, but practically there often exists a range of estimates that could be justified as a best estimate.

In addition to any margin for prudence, the insurer would nearly always hold additional capital designed to withstand more adverse levels of claims. My considerations related to capital for the Proposed Transfer are set out in section 6.

Introduction to reserving bases

Insurers use a range of different reserving bases (ie different measures of the provisions), for different purposes.

For example, financial accounting standards require the provisions to be calculated in particular ways, and an insurer may also use a different basis for internal management accounts. Solvency regulations require provisions to be calculated in yet another way.

For the Proposed Transfer, I have considered the provisions under two reserving bases, which are each relevant for different purposes, namely:

- UK Generally Accepted Accounting Principles (GAAP) – these are the accounting standards used to set the provisions underlying the published financial accounts of AGF, CLL and CWIL. GAAP provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.
- Regulatory technical provisions (or Solvency II technical provisions) – these are calculated in line with the UK Solvency II regulations that came into effect in the UK from 1 January 2016. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency for AGF, CLL and CWIL.

5.2. My considerations relating to reserving

As IE, my overall assessments related to reserving are:

- Whether an appropriate level of provisions is maintained for all relevant policyholders, that is: Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders;
- Whether an appropriate level of provisions is maintained for the transferee CWIL post-transfer; and
- Whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- Appropriateness of provisions for AGF, CLL and CWIL (sections 5.3 to 5.6)
- External independent review of provisions (section 5.7);
- Approach to setting SII technical provisions (section 5.8);
- Key uncertainties when setting provisions (section 5.9);
- Current reserving process and governance (section 5.10); and
- Future reserving approach and governance (section 5.11).

Within these areas, I have also considered any differences in the reserving approach between AGF, CLL and CWIL to understand how this may affect policyholders.

Further details on each of these considerations are set out below, and I have stated my overall conclusions related to reserving in section 5.12.

Approach to my review

I have reviewed a number of documents provided by AGF, CLL and CWIL relating to the setting of provisions, the reserving process and governance. I have had meetings with CSUK staff and actuaries to discuss the information provided, review the reserving models and respond to any questions I have had on the reserving approach. A list of the key data and documentation is provided in Appendix 4.

I have considered the appropriateness of the following:

- Booked provisions for AGF, CLL and CWIL as at 31 December 2021;
- Solvency II technical provisions for AGF, CLL and CWIL as at 31 December 2021.

5.3. Summary of booked provisions for AGF, CLL and CWIL

The following table shows the level of booked provisions as at 31 December 2021 (the latest available figures at the time of my writing of my report) for AGF, CLL and CWIL.

Summary of UK GAAP booked provisions at 31 December 2021

	Gross of reinsurance	Net of reinsurance
AGF (£m)	114.5	104.3
CLL ($m)	35.6	20.3
CWIL (£m)	315.1	245.7

Source: Catalina UK
Based on data as at 31 December 2021, excluding unallocated loss adjustment expenses
Note the net reserves for CWIL are net of external RI only
Note the net reserves for CLL include an adjustment for bad debt
Note all reserves shown as undiscounted, although AGF's statutory reserves are discounted

AGF's and CLL's net liabilities are c. 42% and 6% of the level of CWIL's net liabilities respectively.

Catalina UK's actuarial team performs the reserving for AGF, CLL and CWIL. The reserves are reviewed and approved by Catalina UK's reserve committee and the board of each entity on an annual basis. In determining the provisions, discussions are held with Catalina UK's senior management, claims and reinsurance teams.

The claims IBNR has been estimated by Catalina UK's actuarial team using a combination of historical claims experience and expert judgement. The table below shows the breakdown of the gross reserves into outstanding claims reserves and IBNR, along with a ratio of IBNR to outstanding claims reserve for each entity.

Breakdown of gross provisions as at 31 December 2021

	Outstanding claim reserves	IBNR	Ratio of IBNR to outstanding claim reserves
AGF (£m)	23.3	91.2	391%
CLL ($m)	18.9	16.7	89%
CWIL (£m)	128.0	187.1	146%

Source: Catalina UK

The ratio of IBNR to outstanding claim reserves are higher for AGF and CWIL given the relatively high exposure to longer tail asbestos and pollution liabilities.

5.4. Booked provisions for AGF

The following table shows the level of booked provisions as at 31 December 2021 for AGF by the key reserving classes. The provisions are dominated by asbestos related claims, in particular mesothelioma claims, which will take many years to finalise.

AGF – Summary of GAAP booked provisions as at 31 December 2021

£m	Gross of reinsurance	Net of reinsurance
Mesothelioma / Other Asbestos	106.6	96.4
Deafness/Other	4.8	4.8
Abuse	3.0	3.0
Remainder	0.1	0.1
Total Transferring Business	**114.5**	**104.3**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis and all business is earned. AGF's statutory reserves are discounted at 2.5% pa. Note that post-transfer the AGF provisions within CWIL's consolidated provisions will not be discounted in line with the current approach for CLL and CWIL.

AGF ceased writing business in 1998. All of AGF's liabilities will move to CWIL under the Proposed Transfer. The bulk ie over 90% of AGF's provisions are in respect of asbestos related liabilities. None of AGF's liabilities arise from reinsurance.

AGF has reinsurance with CLL and holds reinsurance recoveries of c. £2m ($3m) due from CLL. CLL holds provisions for the payment of these claims to AGF. Catalina UK is considering a commutation of this reinsurance before the Effective Date. I will provide an update on this potential commutation in my Supplementary Report.

I have reviewed AGF's last full reserving report as at 31 December 2020 dated 5 July 2021 (based on 30 June 2020 data) and AGF's reserve committee report dated 2 December 2021 (based on 30 June 2021 data). These reports contain details of the methodology and assumptions used to estimate the provisions.

Reserving for asbestos related liabilities

Catalina UK's methodology in relation to AGF is to assess provisions separately in respect of:

- Pure IBNR: where incidents have occurred, but not yet been reported to AGF; and
- IBNER: an allowance for any expected increase or decrease in the value of reported outstanding claims.

Pure IBNR

For mesothelioma claims, which make up around 90% of the gross asbestos reserves, AGF's pure IBNR provisions are based on work performed by the UK Asbestos Working Party (AWP). This approach is common across the UK insurance market when reserving asbestos liabilities.

The AWP is a source of expertise within the actuarial profession on matters relating to UK asbestos-related diseases. The AWP has performed extensive work based on UK market data to estimate the total claims cost of UK asbestos-related claims. The AWP work provides useful market benchmarks for actuaries to estimate the provisions relating to asbestos-related claims.

The AWP released an updated insurance market estimate last year based on work performed in 2020. Prior to this, the AWP model was based on work done in 2009. Broadly the updated model has resulted in lower estimates for ultimate asbestos claims. AGF's reserves are based on the updated 2020 model, making appropriate allowances for AGF's portfolio eg a peak in market share in 1948 and a significant reduction in market share in the mid-1970s.

In my opinion, the methodology used by Catalina UK in respect of AGF is a reasonable approach, and in line with common market practice. I also note that CSUK has actuarial staff with many years of experience in reserving for latent diseases and who are also longstanding members of the AWP.

I have compared Catalina UK's AGF assumptions on average claim sizes, nil rates and claims inflation and these are in line with our wider experience and the AWP 2020 assumptions.

IBNER

The IBNER is estimated using standard actuarial techniques using the Development Factor Model (DFM) method applied to claims triangles grouped by report year.

In my opinion, Catalina UK's AGF IBNER reserving approach and justification for the selected assumptions are reasonable and in line with my experience of reserving for these types of liabilities.

Reserving for non-asbestos related liabilities

For AGF deafness claims, Catalina UK assesses the pure IBNR and IBNER separately as for the asbestos liabilities. The pure IBNR is calculated by using decay patterns on claim volumes. The IBNER is estimated using the DFM method on claims triangles grouped by report year.

For AGF UK abuse claims, Catalina UK uses a frequency-severity approach ie applying an assumption for the average cost of a claim to an assumption for the number of future claims.

In my opinion, Catalina UK's reserving approach for AGF's non-asbestos related claims is reasonable and in line with my experience of the approach used by other market participants for these classes of business. I have not reviewed the selected assumptions for reasonableness given the relative materiality of the non-asbestos related liabilities (less than 7%).

Net of reinsurance reserves

The mesothelioma and other asbestos gross reserves are netted down for expected reinsurance recoveries.

For mesothelioma claims, a recovery rate is calculated to apply to the gross IBNR. The recovery rate is based on a stochastic model simulating future mesothelioma claims and calculating recoveries based on AGF's outwards reinsurance programme for each simulated claim.

For other asbestos reserves, the recovery rate is half of the rate used on mesothelioma reserves, based on historical data regarding average claims size.

In my opinion the approach taken and justification for the selected assumptions to net down the gross reserves is reasonable.

5.5. Booked provisions for CLL

The table below shows the level of booked provisions as at 31 December 2021 for CLL by key portfolio.

The liabilities within the portfolio originally assumed by KX Re predominantly arise from exposure to US asbestos, environmental pollution and other health hazard claims, including abuse and relate largely to the 1978 and prior underwriting years.

The liabilities within the Alea London portfolio are in respect of a mix of direct and reinsurance risks, including General Liability, Workers' Compensation and Medical Malpractice. The direct insurance was written from the 2000 to 2005 underwriting years. This also includes provision of reinsurance cover to AGF.

The liabilities within the portfolio originally assumed by OX Re consist of two reserve segments, Community Re and WFUM. The liabilities from Community Re are a mixture of property and casualty classes, written between 1981 and 1983 and are 100% reinsured. The liabilities from WFUM are predominantly in respect of UK Employers' Liability claims, typically relating to retail, estates and light manufacturing. Net reserves are less than $100k and pure IBNR. OX Re went into run-off in 1994.

CLL – Summary of GAAP booked provisions at 31 December 2021

$m	Gross of reinsurance	Net of reinsurance
KX Re	20.9	14.0
Alea London	13.1	6.2
OX Re	1.6	0.1
Total Transferring Business	**35.6**	**20.3**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis and all business is earned. CLL's statutory reserves are not discounted. Note CLL reports in $.

All of CLL's liabilities will transfer to CWIL under the Proposed Transfer, 90% of CLL's reserves relate to reinsurance.

I have reviewed CLL's last full reserving report as at 31 December 2020 dated Jun 2021 (based on 30 September 2020 data) and CLL's reserve committee report dated 2 December 2021 (based on 30 September 2021 data). These reports contain details of the methodology and assumptions used to estimate the provisions.

Of CLL's total gross provisions c. $3m ie 8% relate to liabilities from AGF.

Reserving for US asbestos and pollution liabilities

For US asbestos and pollution claims, reserves are set by considering the movement in paid and incurred claim amounts over the year, including input from the claim handlers' opinion on the held reserves. Once reserves are set at a granular level, these are aggregated up by portfolio and used to calculate survival ratios.

This is a common reserving methodology for US asbestos and pollution liabilities and uses factors that estimate how many years it would take for the portfolio to exhaust the current level of reserves. These ratios consider the level of claims payments made in recent years eg reserves of £1m would represent a survival ratio of 10 if recent payments have been £100,000 pa.

The survival ratios are then compared to industry benchmark survival ratios eg from AM Best as a sense check. The AM Best report, based on reserves as at 31 December 2020, and published in November 2021, gives the survival ratios implied by industry held reserves as 8.6 for US asbestos and 6.9 for US pollution. The survival ratios modified to allow for AM Best's estimated shortfall on the industry held reserves are 12.5 for US asbestos and 10.7 for US pollution.

At 31 December 2021, the survival ratios for CLL compare to the benchmarks as follows:

- CLL's US asbestos survival ratio is higher than both the industry benchmark ratio and the AM Best modified ratio and within a reasonable range of the AM Best modified ratio.
- CLL's US pollution survival ratio is higher than the industry benchmark ratio but lower than the AM Best modified ratio, and within a reasonable range of the A M Best modified ratio.

I have also assessed the survival ratios for reasonableness based on my wider experience.

In my opinion, the methodology used by Catalina UK to reserve for CLL's US asbestos and pollution exposures is a reasonable approach, and the resulting survival ratios are reasonable, based on my wider experience and market benchmarks.

Reserving for non-US asbestos and pollution liabilities

The reserves on non-asbestos and pollution classes are generally estimated using standard actuarial techniques such as the DFM model and frequency-severity methods for some of the portfolios. For one of the portfolios, which is fully reinsured, reserves are held based on a third-party recommendation.

In my opinion, Catalina UK's reserving approach on CLL's non-asbestos and pollution classes is reasonable and in line with market practice. Given the relatively small size of CLL's non-asbestos and pollution liabilities (less than 20% and spread over a large number of exposures), I have not reviewed the assumptions for reasonableness.

Net of reinsurance reserves

These are calculated as follows:

- KX Re portfolio: IBNR netted down using the net:gross outstanding reserve ratios
- Alea London portfolio and OX Re portfolio: allowance for the 100% quota share reinsurance.

In my opinion the approach taken for netting down the gross reserves is reasonable.

5.6. Booked provisions for CWIL

The table below shows the level of booked provisions as at 31 December 2021 for CWIL by key reserving class. The figures are shown gross of the CatGen 80% quota share (QS) recoveries. The provisions are dominated by asbestos related claims, in particular mesothelioma claims, from both the US and through UK EL (c. 70% of gross provisions), which will take many years to finalise.

The booked provisions for CWIL, net of external reinsurance and gross of the CatGen quota share, are much larger than the transferring liabilities, particularly for CLL.

CWIL – Summary of booked provisions at 31 December 2021

£m	Gross of reinsurance	Net of external reinsurance, gross of CatGen QS
US Asbestos	133.2	112.0
US Pollution	32.8	29.9
Hart Re (Motor and long-tail)	17.4	15.8
HFPI (D&O)	9.3	5.1
UK EL	85.8	48.7
Residual	36.6	34.2
Total CWIL	**315.1**	**245.7**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis, other than claims for periodical payment orders, and all business is earned. CWIL's statutory reserves are not discounted.

I have reviewed CWIL's last full reserving report as at 31 December 2020 dated 5 July 2021 (based on 30 June 2020 data) and CWIL's reserve committee report dated 2 December 2021 (based on 30 June 2021 data). These reports contain details of the methodology and assumptions used to estimate the provisions.

US asbestos, pollution and residual (largely sexual abuse claims) provisions make up over 60% (gross) and 70% (net) of the total provisions for CWIL. These segments cover direct, inwards treaty, retrocession and LMX business. This business went into run-off in 1993.

UK EL ie UK asbestos provisions make up another 27% of the total gross provisions (20% net). This portfolio also went into run-off in 1993.

Hart Re (Motor) is a portfolio of motor and other long tail business that went into run-off in 2001.

HFPI (D&O) is a portfolio of Directors and Officers risks that were written between 2007 and 2012.

I have reviewed the reserving approaches for the largest reserving classes and describe these below.

Reserving for US asbestos

US asbestos liabilities arise from business written by EICL (a predecessor company whose business was acquired by CWIL) and a portfolio of pool involvements written by London & Edinburgh (L&E, a company sold to Aviva in 1998) and transferred into CWIL pursuant to a Part VII transfer.

The reserving approach for US asbestos liabilities is to consider the provisions in three high-level categories:

- IBNER: Catalina UK uses a combination of approaches to estimate CWIL's IBNER dependent on the type of the policy and the level of underlying exposure available. These include:
    - Modelling at a ground-up level of known policies and claim exposures where all information is fully available;
    - Extrapolation using benchmark IBNER to case (ie outstanding claims) reserve ratios from accounts where the IBNER has been fully modelled but where full information is not available;
    - Aggregate projection techniques using standard actuarial techniques such as the DFM method where no information on direct exposures is available eg retrocession cover; and
    - Survival ratios.
- Service and declaratory judgement fees: for business written by EICL, Catalina UK uses standard actuarial techniques, such as the DFM method. For business written by L&E, Catalina UK uses an extrapolation approach to project these fees.
- Pure IBNR: Catalina UK uses a combination of approaches to estimate CWIL's pure IBNR dependent on the type of the policy. These include:
    - Actuarial techniques, such as the DFM method;
    - Extrapolation for L&E business; and
    - Survival ratios.

Part of the asbestos liabilities from pool involvements come from the insurer B.D. Cooke. The reserves for this exposure are estimated by an external consultancy on behalf of the whole pool. Catalina UK has adopted the external consultancy's estimates.

In my opinion, Catalina UK's reserving approach for CWIL's US asbestos claims and justification for the selected assumptions are reasonable and in line with my wider experience of reserving for these types of liabilities.

Reserving for US pollution

US pollution liabilities arise from business written by EICL and L&E. The reserving approach involves:

- A granular review of the most significant accounts – this approach involves reviewing the most significant accounts at an individual level, including input from the claim team regarding the level of ultimate claims;
- IBNER for remaining accounts; and

- Pure IBNR based on expected future exposure.

In my opinion, Catalina UK's reserving approach for CWIL's US pollution claims is reasonable and in line with market practice. I have not reviewed the selected assumptions for reasonableness given the relative materiality of the pollution liabilities (c. 10%).

Reserving for UK EL

Catalina UK projects CWIL's UK EL claims by disease split between asbestos related claims and non-asbestos related claims.

Asbestos claims

Catalina UK's reserving methodology for CWIL is similar to that for AGF ie to assess provisions separately in respect of pure IBNR and IBNER elements.

Pure IBNR: For mesothelioma claims, CWIL's pure IBNR provisions are based on the AWP 2020 update, as for AGF, allowing for the earlier peak of exposure and expected shorter run-off of liabilities compared to the wider market. For non-mesothelioma claims, CWIL's pure IBNR provisions are based on run-off patterns set in the previous year, after validating these against actual experience over the last year.

I have compared Catalina UK's CWIL assumptions on average claim sizes, nil rates and claims inflation for asbestos claims and these are in line with our wider experience and the AWP 2020 assumptions.

IBNER: The IBNER is estimated using standard actuarial techniques using the DFM method on claims triangles grouped by report year.

Non-asbestos claims

For CWIL's deafness, vibration and other disease claims, Catalina UK assess the pure IBNR and IBNER separately as for the CWIL asbestos liabilities. The pure IBNR is reserved for using decay patterns on claim volumes.

I have compared Catalina UK's CWIL assumptions on average claim sizes, nil rates and claims inflation for deafness, vibration and other disease claims and these are in line with our wider experience.

The IBNER is estimated using standard actuarial techniques using the DFM method on claims triangles grouped by report year.

In my opinion, Catalina UK's reserving approach and the key assumptions for CWIL's UK EL claims are reasonable and in line with market practice.

Reserving for Residual claims

Residual liabilities contain a mixture of sexual abuse, motor, medical malpractice and other smaller lines of business.

Sexual abuse claims are modelled by considering direct and assumed exposures separately. For US direct exposures, Catalina UK's CWIL reserving approach is to consider trends in filings and dismissal rates and projecting IBNER by diocese up to the point where the reporting window of revival statutes is planned to close by individual state. Catalina UK has an internal sexual abuse working group that meet up on a regular basis to keep abreast of developments on the revival statutes. Catalina UK's view is that, since the majority of the states have had a number of reporting windows open, the peak of reporting of claims has passed. Given the level of media coverage of this issue over recent years, this does not seem an unreasonable approach.

For CWIL's assumed exposures, Catalina UK considers IBNER on a cedant level. The reserving assumptions contain more expert judgments based on discussions with the claims team and the information provided by cedants.

CWIL is not explicitly holding any pure IBNR on abuse claims. I believe at an overall level that this is a reasonable approach given the uncertainty surrounding the estimates and the potential release in IBNER as Catalina UK has not allowed for mediations that are likely to mean lower settlement amounts than those currently being assumed.

Non-abuse residual claims are generally modelled using standard actuarial techniques such as DFM models. In addition, underlying individual claims data is analysed where necessary and expert opinions from Catalina UK's claims team are used to validate provisions.

In my opinion, Catalina UK's CWIL reserving approach and justification provided for the selected assumptions are reasonable and in line with market practice.

Net reserves

These are calculated by Catalina UK as follows:

- US asbestos and pollution: IBNR netted down using the net:gross outstanding reserve ratios.
- Hart Re: calculating estimated recoveries per individual claim since reinsurance cover is limited to PPO claims only.
- UK EL: For mesothelioma claims, Catalina UK calculate a recovery rate to apply to the gross IBNR based on a stochastic model simulating future mesothelioma claims and calculating recoveries based on the outwards reinsurance programme for each simulated claim. For other asbestos reserves, the recovery rate is two-thirds of the rate used on mesothelioma reserves based on historical data of average claims sizes.
- Residual: IBNR netted down using net:gross ratios.

In my opinion the approach taken for netting down the gross reserves and justification provided for the selected assumptions are reasonable.

5.7. External independent review of provisions

AGF

Catalina UK commissions an external actuarial consultancy to provide an independent review of the provisions for AGF on an annual basis. The latest review was based on data as at 30 June 2021 and a report as at 31 December 2021 was provided to Catalina UK dated 15 February 2022.

As at 31 December 2021, the external estimate of the level of provisions for AGF were c. 6% lower than that held by AGF on both a gross and net of reinsurance basis, leading to a surplus in the held provisions of c. £7m on both bases. Given this, the external review of provisions supports the level of provisions held by AGF.

CLL

Catalina UK does not commission an external independent review of the provisions for CLL. Given the relatively small level of net provisions transferring into CWIL, and my conclusions following my review of CLL's provisions, the absence of an external independent review does not impact my conclusions on the impact of the Proposed Transfer.

CWIL

Catalina UK commissions an external actuarial consultancy to provide an independent review of the provisions for CWIL on an annual basis. The latest full review was based on data as at 30 June 2021 and a letter detailing the results of the review, in advance of a full formal report, was provided to Catalina UK dated 10 January 2022. The final report was dated 8 March 2022.

As at 30 June 2021, the external estimate of the level of provisions for CWIL were c. 13% higher than that held by CWIL on both a gross of reinsurance basis, and 14% net (gross of CatGen QS), leading to a deficit in the held provisions of c. £42m and £35m respectively.

The external consultancy's view of a range around their best estimate of £360m is £303m to £432m gross of reinsurance (-16% to +20%), net of reinsurance (gross of CatGen QS) the best estimate is £281m with a range from £242m to £328m (-14% to +17%).

CWIL's held provisions of £318m gross and £247m net of reinsurance (gross of CatGen QS) as at 30 June 2021, are within the external consultancy's range of reasonable best estimates but towards the lower end of the range.

As at 30 June 2020, the external consultancy's estimates were c. 4% higher than Catalina UK's estimates for CWIL. Catalina UK had detailed discussions with the external consultancy at the 2021 year-end to discuss the reasons behind the increase in the difference between the internal and external estimates.

The increase in the difference between the estimates as at 30 June 2021 was mainly driven by the external consultancy updating their benchmarks for US asbestos and pollution during 2021 based on their wider market experience. The main changes in the benchmarks reflected lower than expected payments in the US during 2020 and a re-categorisation of one very large insurance entity by the consultancy.

The changes reflected in the benchmarks do not reflect CWIL's experience. CWIL's approach involves setting reserves at a policy level. I have reviewed Catalina UK's granular approach for CWIL and its key models during a workshop with the Catalina UK actuarial team and have concluded that this is a more robust approach to setting the reserves, rather than the broad-based top-down approach of using market benchmarks.

Furthermore, the external consultancy, who perform reserve reviews for approximately 15 legacy insurers confirmed the following, which gives me additional reassurance on CWIL's approach and the resulting reserves:

- CWIL generally have better ground up modelling data, in particular exposure data, than other legacy companies the external consultancy provides independent reserve reviews for; however the consultancy's approach is to use benchmarks, which results in the divergence in view.
- The Catalina UK internal view for US asbestos and pollution is closer to the middle of the external consultancy's range, rather than to their low, which is where their other run-off companies tend to be ie Catalina UK on behalf of CWIL was more conservative in their reserving than peers.

I concluded that the independent reviews by an external consultancy supported my conclusions regarding the appropriateness of the level of provisions for AGF and CWIL, notwithstanding the differences for CWIL due to the use of benchmarks. I consider the uncertainty in the level of provisions, including reserve deteriorations much larger than the differences discussed above, by the use of scenarios in section 6.10.

5.8. Approach for setting Solvency II technical provisions

I have reviewed the approach taken by Catalina UK in respect of AGF, CLL and CWIL to convert the booked GAAP provisions into Solvency II technical provisions (TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checking of the calculations performed by Catalina UK in respect of AGF, CLL and CWIL. Instead, I have focused on the appropriateness of the approach and the reasonableness of the results.

The table below shows the main items in the bridge between the UK GAAP gross reserves and Solvency II gross technical provisions for each entity. The differences between the GAAP reserves and Solvency II technical provisions have not impacted the conclusions I have reached in this report. I note that for AGF a big driver of the difference is the treatment of discounting. The rate used to discount the booked reserves is higher than the lower discount rates prescribed by the Solvency II rules, leading to a smaller discounting credit.

	AGF £m	CLL $m	CWIL £m
Gross UK GAAP Booked Reserves*	**96.3**	**36.6**	**330.1**
+ Removal of UK GAAP discount	21.3		
+ Events not in data	3.3	0.8	9.4
+ Expenses	4.1	2.7	11.9
- Discounting credit	(9.4)	(4.6)	(35.9)
Gross Best Estimate of SII Liabilities	**115.7**	**35.5**	**315.6**
+ Risk Margin	**20.1**	**4.4**	**17.7**
Gross Solvency II technical provisions	**135.8**	**39.9**	**333.3**
SII minus GAAP technical provisions	39.5	3.3	3.2

* including unallocated loss adjustment expenses

My review has focussed on the areas which are material for AGF, CLL and CWIL along with areas that involve a higher degree of subjectivity and, in my experience, are the areas of interest to an independent reviewer. This included Events Not in the Data (ENIDs) and the Risk Margin.

ENIDs

AGF, CLL and CWIL make an allowance for ENIDs within the TPs as the data used to calculate the best estimate provisions does not typically include experience from rare events. ENIDs are not a material component of the TPs.

The ENID loads as at 31 December 2021 for AGF, CLL and CWIL are in the range 2-3% of the total gross best estimate claims provisions. The loading is not expected to change materially post-transfer.

In my experience, I consider these loadings to be broadly in line with those typically held by other insurers writing similar lines of business, and the method used to calculate the ENID provisions (a truncated distribution method) is commonly used and a reasonable and appropriate approach.

Risk margin

The risk margin within the TPs under Solvency II represents the amount in addition to the best estimate provisions that a third-party insurer would require to take over the insurance obligations.

The risk margin expressed a percentage of gross best estimate technical provisions for each of the three entities as at 31 December 2021 is:

- AGF: 17%
- CLL: 12%
- CWIL: 6%.

The relatively high risk margins for AGF and CLL reflect the much longer average duration of the liabilities compared to typical non-life insurers. All else being equal, a longer duration will result in a higher risk margin to reflect the increased risk. Since almost all of the liabilities relate to long-tailed claims, including asbestos disease claims, the risk margin is relatively high as a proportion of the gross best estimate provisions. A higher risk margin provides more protection for policyholders.

CWIL's risk margin is relatively low due to the 80% quota share reinsurance in place. Post-transfer, CWIL's risk margin is projected to be around 9% of best estimate gross technical provisions.

LCP's market review of Solvency II reporting as at 2020 year-end, based on 100 non-life insurers in the UK and the ROI, showed that the risk margin as a proportion of gross best estimate TPs was 5% for General Liability and 9% for Non-Proportional Casualty.

I consider the risk margins held by AGF, CLL and CWIL to be appropriate given the nature of the liabilities and in CWIL's case, the high level of reinsurance.

Conclusion on Solvency II technical provisions

Based on my review of the areas described above, I consider the approach used by Catalina UK in respect of AGF, CLL and CWIL to calculate Solvency II TPs to be reasonable and appropriate.

5.9. Key uncertainties when setting provisions

The ultimate costs of settling general insurance claims are subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim) including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

In the sections below, I have described the key uncertainties in setting the provisions and provided some illustrations of how sensitive the net of reinsurance reserves are to some of the assumptions used.

In addition to the reserving sensitivities described here, I have considered more extreme stress and scenario tests regarding uncertainty in the provisions in section 6 where I discuss my considerations regarding capital.

Key uncertainties – AGF

Key reserving uncertainties, specific to the Transferring Business from AGF are as follows:

- The UK EL liabilities relate to policies which were on risk from the 1910s. AGF went into run-off in 1998. Given how long ago these exposures occurred, there is limited data available with which to accurately assess AGF's exposure to asbestos. It can take 40 years or more before symptoms of asbestos-related diseases emerge, which means there is significant uncertainty in the frequency and severity of future claims.
- There is potential for increases in average claim costs, for example due to a court award setting a new precedent or the emergence of an expensive new treatment.
- The liabilities are sensitive to changes in legislation or judicial decisions eg the Fatal Accidents Act. In the recent past, there were plans to review the level of bereavement damages payable under this Act in England, similar to those payable in Scotland. The Government announced in February 2020 that there will be no changes to the level of damages. However, the reserves would be significantly impacted if this were to change. For example, if bereavement awards were to increase to £100,000 as in Scotland (currently c. £15,000 in England and Wales), this would increase AGF's net reserves by £30m (27% of total net reserves).
- Given the long-term nature of the liabilities, with payments expected to continue for more than thirty years, the reserves are sensitive to increases in inflation. For example, a 1% increase in the assumed future inflation increases the net reserves by £9m (8% of total net reserves).
- The potential impacts of COVID-19 on asbestos claims include delays in claims reporting, a potential acceleration of longer-term claim reporting (where the claimant dies of COVID-19 rather than an asbestos-related disease) and an increase in the proportion of deceased claimants and therefore wrongful death claims. Catalina UK believes COVID-19 will not have a material impact on AGF's liabilities. However, the pandemic increases the potential uncertainty around the reserves.
- AGF has a small amount of exposure to UK abuse claims, with the extent of the exposure not fully known due to missing policy information. If claims were to be significantly higher than currently allowed for within the reserves, for example, if AGF's reserves were to double for abuse claims, this would increase the net reserves by £3m (3% of total net reserves).

Key uncertainties – CLL

Key reserving uncertainties, specific to the Transferring Business from CLL are as follows:

- A significant proportion of CLL's liabilities relate to US asbestos and pollution policies which were written between 1973 and 1978. Given how long ago these exposures occurred, there is limited data available with which to accurately assess CLL's exposure to asbestos. It can take 40 years or more before symptoms of asbestos-related diseases emerge, which means there is significant uncertainty in the frequency and severity of future claims.
- Given the long-term nature of the liabilities, the reserves are sensitive to increases in inflation.
- There is potential for increases in average claim costs, for example due to a court award setting a new precedent or the emergence of an expensive new treatment.
- CLL has a small amount of exposure to UK abuse claims.

Key uncertainties – CWIL

Key reserving uncertainties, specific to the existing business in CWIL, are as follows:

- A significant proportion of CWIL's liabilities relate to UK EL and US asbestos and pollution policies which were written between 1948 and 1980. Given how long ago these exposures occurred, there is limited data available with which to accurately assess CWIL's exposure to asbestos. It can take 40 years or more before symptoms of asbestos-related diseases emerge, which means there is significant uncertainty in the frequency and severity of future claims.
- Given the long-term nature of the liabilities, the reserves are sensitive to increases in inflation. For example, on the US asbestos, CWIL has run a sensitivity analysis with inflation 0.5% higher than in the best estimate reserves and applying a 1-year lag to the run-off pattern for future claim filings. This increased their total net reserves by around 5%.
- There is potential for increases in average claim costs, for example due to a court award setting a new precedent or the emergence of an expensive new treatment.

- CWIL is exposed to uncertainty due to the US legal system and its specific characteristics including unexpected or uncertain judicial decisions and awards. The system provides for punitive damages and contingency fees which make it difficult to assess legal risks. Another issue is that it is not one system but 50 state systems plus a federal system. In addition, case law can be different in different states.
- The UK EL liabilities are sensitive to changes in legislation or judicial decisions eg the Fatal Accidents Act. In the recent past, there were plans to review the level of bereavement damages payable under this Act in England, similar to those payable in Scotland. The Government announced in February 2020 that there will be no changes to the level of damages. However, the reserves would be significantly impacted if this were to change. For example, if bereavement awards were to increase to £100,000 as in Scotland (currently c. £15,000 in England and Wales), this would increase CWIL's net reserves by £16m (6% of total net reserves).
- The CWIL portfolio contains exposure to US abuse claims. The US abuse portfolio makes up c. 6% of the total net reserves for CWIL. Since 2019, many US states have enacted revival statutes which led to a significant increase in reported claims. Some of the states have had the revival statutes window opened up to three times. There is therefore considerable uncertainty around future claims notifications and settlements.
- Transferring AGF Policyholders and Transferring CLL Policyholders will be impacted by any deterioration in CWIL's provisions including from US sexual abuse claims as described above. I consider stress and scenarios tests for the potential deterioration in CWIL's provisions in section 6.

The downside risk on the CWIL portfolio is mitigated by the 80% quota share reinsurance with CatGen.

5.10. Current reserving process and governance

AGF, CLL and CWIL are subject to the same reserving process and governance as part of Catalina UK. The same actuarial team is responsible for calculating and providing estimates of provisions to Catalina UK's reserve committee and the board for each entity. There is a common sign-off process for all three entities with the same individuals.

AGF

The AGF reserves are calculated by Catalina UK's actuarial team on an annual basis. The reserves are estimated using techniques that are in line with market practice eg AWP 2020 model for asbestos reserves, decay patterns for deafness claims and standard actuarial methods such as the DFM and frequency-severity. The reserving approach will be unchanged following the Proposed Transfer.

Catalina UK also engage an external actuarial consultancy to provide an independent estimate of the provisions on an annual basis. Catalina UK discuss and challenge the external estimates so as to understand the differences in internal and external views.

The reserves are reviewed, challenged and signed-off by the Catalina UK reserve committee, which consists of the key management personnel including the Chief Executive Officer (CEO), UK Claims Director and the Group Chief Commercial Officer. The meetings are also attended by the Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the Chief Actuary (CA).

Actions from the reserve committee and any changes recommended are recorded in the minutes and circulated to attendees.

CLL

The CLL reserves are calculated by Catalina UK's actuarial team on an annual basis. The reserves are estimated using techniques that in line with market practice eg loss level reserving for US asbestos and pollution and standard actuarial methods such as DFM for non-asbestos and pollution claims. The reserving approach will be unchanged following the Proposed Transfer.

The reserves are reviewed, challenged and signed-off by the Catalina UK reserve committee, which consists of the key management personnel including the Chief Executive Officer (CEO), UK Claims Director and the Group Chief Commercial Officer. The meetings are also attended by the Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the Chief Actuary (CA).

Actions from the reserve committee and any changes recommended are recorded in the minutes and circulated to attendees.

CWIL

The CWIL reserves are calculated by Catalina UK's actuarial team on an annual basis. The reserves are estimated using common techniques such as policy/account level modelling, survival ratios, the AWP 2020 model and standard actuarial methods such as DFM and frequency-severity. The reserving approach will be unchanged following the Proposed Transfer.

Catalina UK also engage an external actuarial consultancy to provide an independent estimate of the reserves on an annual basis. Catalina UK discuss and challenge the external estimates so as to understand the differences in internal and external views.

The reserves are reviewed, challenged and signed-off by the Catalina UK reserve committee, which consists of the key management personnel including the Chief Executive Officer (CEO), UK Claims Director and the Group Chief Commercial Officer. The meetings are also attended by the Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the Chief Actuary (CA).

Actions from the reserve committee and any changes recommended are recorded in the minutes and circulated to attendees.

5.11. Future reserving approach and governance

Catalina UK has confirmed that, following the Proposed Transfer, the same reserving process and governance controls will be followed for the combined CWIL entity. The methods and approach to calculating and reporting provisions will not change.

Catalina UK intends to continue to commission an external independent actuarial review on a regular basis to provide challenge to the internal reserving process.

5.12. Overall conclusion: reserving considerations

As the provisions for portfolios of run-off business reduce over time, the uncertainty and volatility regarding the level of provisions increases as the level of provisions becomes smaller. The AGF and in particular the CLL portfolios are much smaller than the CWIL portfolio.

The Transferring AGF Policyholders and Transferring CLL Policyholders will benefit from the greater pooling of risk from being part of the much larger CWIL portfolio. I comment on the capital aspects of policyholder security in Section 6.

However, Transferring AGF Policyholders and Transferring CLL Policyholders will be exposed to US sexual abuse claims following the Proposed Transfer, for which the level of ultimate reserves is particularly uncertain. However, I note that reserves for this class are c. 6% of CWIL's net reserves and there is further mitigation from the 80% quota share reinsurance with CatGen.

I set out below my overall conclusions related to reserving. These reserving considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on the level of capital held, and a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

I have reached my conclusions on the reserving aspects of the Proposed Transfer by considering:

- The reserving methods and assumptions for each entity;
- The key reserving models used by Catalina UK's actuaries including a meeting to demonstrate the models;
- The external independent reserve reviews for AGF and CWIL;
- The experience and qualifications of the Catalina UK actuarial team; and
- The lack of impact on policyholders as the reserving process and governance will not change post-transfer.

Transferring AGF Policyholders

I have concluded that Transferring AGF Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions for the Transferring Business has been performed using appropriate techniques and the provisions are higher than those of an independent external review.
- Catalina UK has confirmed that the future reserving process and governance for CWIL will be materially unchanged post-transfer.
- The calculation of provisions for CWIL's business has been performed using appropriate techniques and the provisions are within a range of reasonable best estimates as evidenced by an independent external review.

Transferring CLL Policyholders

I have concluded that Transferring CLL Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions for the Transferring Business has been performed using appropriate techniques.
- Catalina UK has confirmed that the future reserving process and governance for CWIL will be materially unchanged post-transfer.
- The calculation of provisions for CWIL's business has been performed using appropriate techniques and the provisions are within a range of reasonable best estimates as evidenced by an independent external review.

Existing CWIL Policyholders

I have concluded that Existing CWIL Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions for CWIL's business has been performed using appropriate techniques and the provisions are within a range of reasonable best estimates as evidenced by an independent external review.
- The existing reinsurance cover with CatGen will continue to provide CWIL with 80% protection in the event of a deterioration in the reserves for the existing CWIL portfolios. There remains the potential for reserve deteriorations within the transferring AGF and CLL portfolios, but the volume of reserves being transferred are much smaller than CWIL's reserves and will continue to benefit from the current reinsurance in place. There could be diversification benefits for CWIL from having exposure to a wider pool of insureds, although there is some overlap in the nature of the liabilities of all three entities.
- Catalina UK has confirmed that the future reserving process and governance for CWIL will be materially unchanged post-transfer.

6. Capital considerations

6.1. Introduction to insurance capital setting

A key reason why insurers hold capital is to withstand adverse or extreme levels of claims and other losses. The capital is held in excess of the provisions for policyholders' claims and for the other costs associated with running an insurer.

A key metric under solvency regulations is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 probability adverse outcome). Firms are required to hold capital equal to at least 100% of the SCR.

An insurer's SCR coverage ratio is calculated as the available capital in excess of provisions divided by the SCR. This is a measure of capital strength, with a higher ratio indicating there is more capital available per £ or $ of capital required. The SCR coverage ratio does not capture all aspects of policyholder protection, but a higher coverage ratio indicates more protection, all else being equal. Under Solvency II, the level of available capital is referred to as own funds.

I consider the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security before and after the transfer for the following reasons:

- I consider the SCR, when considered together with capital on an ultimate view, to be a suitable measure for the overall risks of AGF, CLL and CWIL.
- The SCR coverage ratio is an objective measure of the financial strength of an insurer that can be compared on a consistent basis at two points in time; and
- The SCR is a risk-based metric that is disclosed to both regulators and the public.

My assessment of the capital considerations regarding policyholder security is also supported by consideration of capital beyond a one-year view (section 6.4) and a review of the impact of a range of adverse scenarios on each of AGF, CLL and CWIL (section 6.10).

Definition of well capitalised and very well capitalised

For the purposes of this report, I describe a company as having 'sufficient capital' if the SCR coverage ratio is between 100% and 150%. I describe a company as 'well capitalised' if the SCR coverage ratio is between 150% and 200% and 'very well capitalised' if the SCR coverage ratio is 200% and above.

6.2. My considerations related to capital

As IE, my overall assessments related to capital are:

- Whether the projected capital requirements have been calculated appropriately for AGF, CLL and CWIL;
- Whether there are expected to be any material adverse changes in the strength of capital protection for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios for each group of policyholders pre- and post- the Proposed Transfer); and
- Whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- AGF, CLL and CWIL's approach to calculating capital requirements (section 6.4);
- Capital requirements beyond a one-year view (section 6.5);
- Components of capital requirements (section 6.6);
- The capital policy for AGF, CLL and CWIL (section 6.7);
- Standard formula appropriateness for AGF, CLL and CWIL (section 6.8);
- Projected SCR coverage ratios for AGF, CLL and CWIL (section 6.9);
- SCR scenario analysis (section 6.10); and

- Financial strength of CatGen (section 6.11).

My conclusions regarding capital considerations are set out in section 6.12.

6.3. Approach to my review

I have reviewed a number of documents provided by Catalina UK relating to the calculation of capital requirements and projected coverage ratios. A list of the key data and documentation reviewed is provided in Appendix 4.

6.4. AGF, CLL and CWIL's approach to calculating capital requirements

For AGF, CLL and CWIL, the level of capital required is set in line with the Solvency II standard as implemented by the UK.

Under Solvency II, there are three ways in which the SCR can be calculated:

- Standard formula: under this approach, the SCR is set using a prescribed calculation and parameters, as specified in the Solvency II regulations. Within the standard formula framework, insurers can use undertaking-specific parameters (USPs) to tailor specific aspects of the parameterisation of the calculation to better reflect their risk profile.
- Internal model: under this approach, the SCR is set using the insurer's own internal capital model. The internal model is developed and parameterised by the insurer to reflect their specific business.
- Partial internal model: under this approach, the SCR is set using a combination of the standard formula and the insurer's own internal capital model. Some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

The choice of approach is made by the insurer. However, an insurer needs to obtain regulatory approval in order to use USPs, an internal model or a partial internal model to calculate its SCR. An insurer does not need approval to calculate its SCR using the standard formula without USPs but does need to complete its own assessment of the appropriateness of the standard formula for this purpose.

How each firm calculates its SCR

Each of AGF, CLL and CWIL use the standard formula without USPs to calculate its SCR.

The Catalina group also has an unapproved economic capital model which it uses for various business functions including internal business planning for each entity.

I am satisfied that Catalina UK has considered risks on an ultimate horizon basis. Although, as expected as capital required on an ultimate basis will be higher than on a one-year basis, the ultimate SCR coverage reduces on this basis, AGF, CLL and CWIL remain at least sufficiently capitalised both pre- and post-transfer.

Minimum Capital Requirement

In addition to the SCR, another key measure of capital under Solvency II is the Minimum Capital Requirement (MCR).

The MCR is a simpler calculation than the SCR, using a formula based on volumes of premiums and Solvency II technical provisions.

For non-life insurers, the MCR is between 25% and 45% of the SCR, subject to a minimum of £3.1m (€3.7m) or £2.1m (€2.5m) depending on the business written. Accordingly, this minimum is typically only relevant for the smallest insurers.

Firms need to hold capital equal to at least 100% of the greater of the SCR and the MCR. The purpose of the MCR is to ensure that firms are holding at least a minimum level of capital. Breaching the MCR will result in more intensive regulatory intervention than would be the case for a breach of the SCR.

For AGF, CLL and CWIL the SCR as at 31 December 2021 is higher than the MCR. The coverage ratio based on the MCR was 726%, 810% and 731% for each entity respectively. Therefore, I have not considered the MCR further as part of my assessment of capital considerations, and my primary focus is on the SCR.

The SCR coverage ratio is calculated as the available capital in excess of provisions divided by the SCR.

AGF is projected to be well capitalised on this measure with a SCR coverage ratio of 179% pre-transfer on Day 0. CLL and CWIL are projected to be very well capitalised with SCR coverage ratios of 327% and 244% respectively.

Post-transfer on Day 1, CWIL is projected to be very well capitalised with a SCR coverage ratio of 200%. Throughout the period to December 2024, the SCR coverage ratio is projected to decrease from 200% to 167% before increasing to 194%, ie CWIL remains well capitalised over this period.

6.5. Capital requirements beyond a one-year view

The SCR is a 'one-year' view of risk as it focuses on risks that insurers face over the next 12 months, applicable to all future liabilities. I have also considered a longer term view of risk, by considering a range of scenarios to illustrate the risks to which each of AGF, CLL and CWIL is exposed over a longer time horizon. The scenarios are set out in section 6.10, including scenarios that consider an extreme reserve deterioration and default of CatGen.

The PRA's Supervisory Statement 26/15 (October 2018) sets out the PRA's expectations of how firms should identify and mange risks over the long term as well as the short term.

The Catalina group unapproved economic capital model is used to consider risk on an ultimate horizon basis. This recognises that the nature of the liabilities within the AGF, CLL and CWIL portfolios are long-tailed in nature.

Reserve risk is a material risk for run-off insurers such as AGF, CLL and CWIL. The ultimate view of reserve risk is more than twice as high as the one-year view given the long tail nature of the liabilities. For other risks, the model assumes the ultimate view is the same as the one-year view eg for credit risk it is assumed that the quota share arrangement with CatGen continues to be collateralised and the increased risk of default over time is offset by the reducing exposure as the business runs off.

On an ultimate view, the model shows that each of AGF and CWIL are sufficiently capitalised and CLL is very well capitalised. Post-transfer CWIL remains sufficiently capitalised.

6.6. Components of capital requirements

The key components of the SCR for AGF, CLL and CWIL are:

- Underwriting risk: the risk that the value of insurance claims proves to be higher than expected. This includes the risk of an increase in claims and uncertainties related to existing liabilities included on the balance sheet (reserving risk) and the risk of inadequate premiums being charged (premium risk). For AGF, CLL and CWIL underwriting risk is only reserving risk.
- Market risk: the risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this includes the risk of falls in the value of investment assets that are being held to make future claims payments.
- Counterparty default risk: the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this includes the risk of the failure of a reinsurer.
- Operational risk: the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would include the risk of fraud or IT failure.

The sum of these components gives the "undiversified" SCR. The SCR (ie diversified SCR) is typically lower than the undiversified SCR, as it allows for the statistical diversification between the components.

AGF, CLL and CWIL have provided actual SCR calculations as at 31 December 2021, and projected pre- and post-transfer SCR calculations at 31 December 2022 and 1 January 2023. I have summarised the key risks as a percentage of the total SCR, both pre-transfer and post-transfer, below. There are no projections for AGF and CLL post-transfer as all the liabilities are planned to transfer across to CWIL on the Effective Date.

The Effective Date is expected to be 30 November 2022, but I do not expect the SCR calculations projected to 31 December 2022 (mentioned above) to be materially different enough at this date to affect my conclusions.

AGF: Breakdown of SCR risk components

Risk components £m	As at 31 December 2021		As at 31 December 2022	
Underwriting risk	35.1	*68%*	31.6	*56%*
Market risk	24.0	*46%*	35.0	*62%*
Counterparty default risk	2.4	*5%*	1.6	*3%*
Life risk	0	*0%*	0	*0%*
Health risk	0	*0%*	0	*0%*
Diversification credit	(13.1)	*(25%)*	(14.7)	*(26%)*
Operational risk	3.5	*7%*	3.1	*6%*
SCR	**52.0**	***100%***	**56.5**	***100%***

Source: Catalina UK Capital Projections

For AGF, the most material components of the SCR are underwriting and market risk, which represent around 56% and 62% of the projected pre-transfer SCR respectively. For the liabilities being transferred, the only element of underwriting risk is reserving risk, which is the risk of an increase in claims and uncertainties related to the existing liabilities included on the balance sheet. There is no premium risk for the transferring liabilities as no new business is being written or earned over the following year.

CLL: Breakdown of SCR risk components

Risk components $m	As at 31 December 2021		As at 31 December 2022	
Underwriting risk	7.2	*59%*	5.9	*57%*
Market risk	4.0	*33%*	4.9	*47%*
Counterparty default risk	3.1	*26%*	1.4	*14%*
Life risk	0	*0%*	0	*0%*
Health risk	0.5	*4%*	0.4	*4%*
Diversification credit	(3.7)	*(31%)*	(3.2)	*(31%)*
Operational risk	1.1	*9%*	0.9	*9%*
SCR	**12.1**	***100%***	**10.3**	***100%***

Source: Catalina UK Capital Projections

For CLL, the most material components of the SCR are underwriting and market risk, which represent around 57% and 47% of the projected pre-transfer SCR respectively. The only element of underwriting risk is reserving risk. There is no premium risk for the transferring liabilities as no new business is being written or earned over the following year.

CWIL: Breakdown of SCR risk components

Risk components £m	As at 31 December 2021		As at 31 December 2022		As at 1 January 2023	
Underwriting risk	18.7	*35%*	17.1	*40%*	49.9	*53%*
Market risk	33.1	*61%*	21.8	*51%*	50.8	*54%*
Counterparty default risk	6.2	*11%*	6.1	*14%*	5.0	*5%*
Life risk	0.2	*0%*	0.2	*0%*	0.2	*0%*
Health risk	0	*0%*	0	*0%*	0.3	*0%*
Diversification credit	(13.3)	*(25%)*	(11.0)	*(26%)*	(24.0)	*(25%)*
Operational risk	9.1	*17%*	8.3	*20%*	11.9	*13%*
SCR	**54.0**	***100%***	**42.4**	***100%***	**94.1**	***100%***

Source: Catalina UK Capital Projections

For CWIL, the most material component of the SCR is market risk, which represents 51% and 54% of the total SCR pre- and post- transfer respectively. Underwriting risk is also a material contributor to CWIL's SCR, representing 40% and 53% of the SCR pre- and post- transfer respectively.

As can be seen from the table, CWIL's risk profile, ie the relative mix of risks, is not materially affected by the Proposed Transfer, although underwriting risk increases and counterparty default risk decreases.

CWIL's SCR is expected to increase from £42m to £94m following the Proposed Transfer. This is driven by an increase in market risk and underwriting risk. The increase in CWIL's market and underwriting risk components is slightly lower than the sum of these components from AGF and CLL pre-transfer. The drivers of the changes in the SCR:

- Underwriting risk: aggregate SCR is £3m lower than the sum of the individual components due to business and geographic diversification benefits;
- Market risk: aggregate SCR is £10m lower than the sum of the individual components due to the assets left in AGF and CLL, and a reduction in the $ mismatch risk due to the transfer of CLL's net assets;
- Counterparty default risk: aggregate SCR £4m lower than sum of components due to greater counterparty diversification; and
- Diversification credit: £4m loss of diversification credit post-transfer.

6.7. Capital policy for AGF, CLL and CWIL

AGF, CLL and CWIL are subject to the same capital management plan as part of Catalina UK. There is a common sign-off process for all three entities with the same individuals. I have reviewed Catalina UK's capital management plan within the ORSA for AGF, CLL and CWIL.

Catalina UK's policy is to hold a target level of capital of 140% of the Solvency II SCR for each of AGF, CLL and CWIL, which I consider to be sufficient capital as described in section 6.1. This target has been determined to reflect the nature, scope and complexity of the risk profile for each entity, which consist of long-tail liability portfolios. The target will not change post-transfer.

It was considered appropriate to set the same capital target, as a proportion of SCR, for all three entities given the same risk appetites for all three entities. The risk characteristics of each entity were also assessed and Catalina UK concluded that a common SCR target is appropriate.

The projected SCR coverage ratio immediately after the Proposed Transfer is 200%. This is very well capitalised and is above the overall risk appetite of 140%.

Based on the projections in section 6.9, CWIL (the only entity retaining insurance risk post-transfer) is expected to remain well capitalised and above the overall risk appetite throughout the projection period ie to December 2024.

6.8. Standard formula appropriateness for AGF, CLL and CWIL

I have considered the appropriateness of the standard formula for Catalina UK's entities by reviewing two aspects:

- Reviewing Catalina UK's assessment of the appropriateness of using the standard formula for the purposes of setting the SCR.
- Reviewing Catalina UK's documentation of its standard formula SCR process and calculations to satisfy myself that the calculations are being performed in line with the Solvency II Delegated Regulations.

Appropriateness of the standard formula

Catalina UK has considered the appropriateness of the standard formula for AGF, CLL and CWIL.

As run-off insurers, AGF, CLL and CWIL are only exposed to reserve risk within underwriting risk and are not exposed to potential limitations in the standard formula approach to catastrophe risk.

To assess the appropriateness of the SCR for reserve risk, Catalina UK has compared the coefficient of variance for each entities' SII lines of business from the standard formula approach to the internal view of volatility over a one-year time horizon from the group unapproved economic capital model.

The standard formula view of volatility is higher than the internal view, as the internal view models capital at a more granular level of business ie there are more lines of business modelled and so there is more diversification credit. However, the differences are not material and this supports the appropriateness of the SCR for reserve risk.

For counterparty default risk, the most material counterparty is CatGen through the 80% quota share arrangement with CWIL. The standard formula treats CatGen as an unrated reinsurer which could be prudent but the standard formula also gives credit in the default risk calculation for the collateral arrangements for the quota share.

For market risk, Catalina UK's assessment of the appropriateness of the standard formula concludes that the level of granularity and assumptions within the standard formula generally captures well the asset portfolios of each entity.

Operational risk within the standard formula is captured by a fairly simple calculation, but this approach is often followed even in more sophisticated internal models. Given the materiality of this risk, the standard formula is broadly appropriate.

I have reviewed the standard formula assessment provided by Catalina UK and I am satisfied that it supports the conclusion that the standard formula is appropriate for AGF, CLL and CWIL.

SCR documentation and calculation

I have reviewed Catalina UK's documentation of its approach to determining the SCR using the standard formula.

My review did not identify any areas where Catalina UK's approach to calculating the SCR is different from what I would expect based on my interpretation of the Solvency II regulations. As a result, I am satisfied that the SCR is being calculated materially in line with the UK Solvency II Delegated Regulations.

The SCR for AGF, CLL and CWIL is calculated by Catalina UK using propriety software produced by an independent third party consultancy.

We received the external model for CWIL and performed an independent calculation within our own SCR software based on the inputs provided in the external model. We were able to materially reconcile within 3% the SCR compared to the external model.

Our analysis led me to conclude that the calculation of the SCR for CWIL as at Q4 2021 was materially correct.

Further considerations

My consideration of Catalina group's unapproved economic capital model to support the appropriateness of the standard formula as described in section 6.4 has supported the conclusions I have reached, but I have not relied on this to reach my conclusions.

Conclusion

My review of Catalina UK's documentation of the appropriateness of the standard formula and independent calculation of the SCR for CWIL led me to conclude that the standard formula is appropriate for the calculation of the SCR for Catalina UK's entities and that the calculation for CWIL was materially correct.

6.9. Projected SCR coverage ratios for AGF, CLL and CWIL

Projected SCR coverage ratios immediately pre- and post-transfer

The table below sets out the projected SCR and coverage ratios, as prepared by Catalina UK, immediately before and after the Proposed Transfer.

The Effective Date of the Proposed Transfer is expected to be 30 November 2022. Catalina UK has provided the projected SCR and coverage ratios immediately before and after the Proposed Transfer based on projections to 31 December 2022 and 1 January 2023 respectively. I do not expect the projections to be materially different enough as at 30 November 2022 to affect my conclusions.

Catalina UK's projected SCR and coverage ratios are based on data as at 31 December 2021.

Projections pre- and post-transfer	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in policyholder coverage ratio
Day 0: pre-transfer					
AGF £m	101.3	56.5	44.8	179%	21%
CLL $m	33.7	10.3	23.4	327%	(127%)
CWIL £m	103.7	42.4	61.3	244%	(44%)
Day 1: post-transfer					
CWIL £m	188.1	94.1	94.0	200%	

Source: Catalina UK Capital Projections

The SCR coverage ratio for CWIL post-transfer is calculated assuming £27.3m and $21.9m (£16.2m) of surplus capital above the 140% risk appetite level remains in AGF and CLL respectively at the Effective Date. The calculation of the surplus capital takes into account the reduction in market risk immediately post-transfer.

In summary:

- Transferring AGF Policyholders: The SCR coverage ratio for liabilities transferring from AGF to CWIL is projected to increase from 179% to 200% and so policyholders are better protected post-transfer.
- Transferring CLL Policyholders: The SCR coverage ratio for liabilities transferring from CLL to CWIL is projected to decrease from 327% to 200%. However, CWIL is still projected to be very well capitalised (as defined in Section 6.1) immediately after the Proposed Transfer.
- The decrease in SCR coverage ratio for 327% to 200% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 327% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Existing CWIL Policyholders: the SCR coverage ratio for CWIL is projected to decrease from 244% to 200% after the Proposed Transfer. CWIL is very well capitalised prior to the Proposed Transfer. After the Proposed Transfer, whilst the SCR coverage ratio is projected to fall, CWIL is still projected to be very well capitalised.

- The decrease in SCR coverage ratio from 244% to 200% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 244% does not, in my opinion, equate to a material difference in the probability of insolvency.

Based on this analysis, AGF, CLL and CWIL are projected to be either well capitalised or very well capitalised pre-transfer and CWIL is projected to be very well capitalised immediately post-transfer. Therefore, I do not expect the changes in SCR coverage ratios immediately pre- and post- the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders.

I therefore conclude that Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

Projected SCR coverage ratios up to 31 December 2024

I have also reviewed Catalina UK's projected SCR coverage ratios over its financial planning horizon beyond the Proposed Transfer to 31 December 2024.

Post-transfer, CWIL's SCR coverage ratio is expected to be 200% on 1 January 2023. The SCR coverage ratio is then projected to decrease to 167% as at 1 August 2023 following a planned dividend payment. This planned dividend payment would result in CWIL moving from being very well capitalised to well capitalised (as defined in Section 6.1). However, the projected SCR coverage ratio will still exceed the 140% target set in the capital management plan. The dividend payment will also require PRA approval.

In the following 18 months, CWIL is expected to remain well capitalised throughout the remainder of the projection period to 31 December 2024. The projected SCR coverage ratio at 31 December 2023 is 177% and at 31 December 2024 is 194%.

Catalina UK are planning to discuss changing the level of the 80% quota share arrangement with CatGen. Any change to the quota share would need to be agreed with CatGen.

The change in the level of the quota share arrangement and the timing of any change is currently uncertain. As an indication, Catalina UK has considered the impact of a change to a 50% quota share effective as at the end of December 2024. Catalina UK estimates the impact of this change would be to reduce the SCR coverage ratio by 15% to 20% ie CWIL would remain well capitalised as at 31 December 2024 with a coverage ratio of 174% to 179%. I do not consider this a material change and this would not change my conclusions.

I note that both the planned dividend payment and any change to the quota share arrangement would need approval from the PRA.

In practice, CWIL's average coverage ratios may be higher or lower than these projections depending on the claims and other experience of CWIL. Catalina UK will routinely monitor the capital and projected capital position in line with CWIL's capital management policy (considered in section 6.7 above), this could also lead to the coverage ratios being higher or lower than projected.

Conclusion

I have concluded that the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL policyholders are not materially disadvantaged by the Proposed Transfer as CWIL remains well-capitalised post-transfer and the probability of insolvency is not materially different pre- and post-transfer.

6.10. SCR scenario analysis

I requested that Catalina UK prepare a number of stress and scenario tests to illustrate the adverse impact on the MCR and SCR coverage ratios of AGF, CLL and CWIL pre-transfer and the combined CWIL entity post-transfer.

The purpose of the scenario analysis is to assess the impact of a series of adverse events and whether, under these circumstances, an appropriate level of security is maintained for policyholders.

The scenarios specified were a reserve deterioration of either 30% or 50% (ie the final cost of settling claims either 30% or 50% higher than expected), an investment stress, a reinsurer default and a reverse stress test ie a scenario that, by design, considers events that could lead to insolvency of an insurer.

The following table summarises the adverse scenarios that I have considered. These scenarios are intended to represent a range of possible deteriorations that may occur over the ultimate time horizon, including both moderate and extreme scenarios. The scenarios do not represent the full range of possible adverse events to which the insurers may be exposed.

All of the scenarios were specified and reviewed for reasonableness by me but the calculations have been performed by Catalina UK and are as at 31 December 2021. I have also included the MCR coverage ratios for each of the scenarios.

Impact of stress and scenario tests on MCR coverage ratios

% MCR coverage ratio before and after applying each stressed scenario	AGF	CLL	CWIL	CWIL post-transfer
Before stressed scenario	**726%**	**810%**	**731%**	**801%**
1a. Reserve deterioration – 30% for AGF and CWIL pre and post-transfer, 40% for CLL	362%	347%	462%	448%
1b. Reserve deterioration – 50% for AGF and CWIL pre and post-transfer, 60% for CLL	179%	245%	290%	259%
2. Investment stress	325%	312%	336%	341%
3a. Reinsurer default scenario	n/a	-	298%	403%
3b. Reinsurer default scenario with haircut	n/a	-	157%	305%
4. Reserve deterioration – 35% for CWIL post-transfer combined with a reinsurer default scenario and haircut of 20%	-	-	-	-2%
5. Reverse stress test	-23%	72%	8%	42%

Impact of stress and scenario tests on SCR coverage ratios

% SCR coverage ratio before and after applying each stressed scenario	AGF	CLL	CWIL	CWIL post-transfer
Before stressed scenario	**182%**	**288%**	**183%**	**200%**
1a. Reserve deterioration – 30% for AGF and CWIL pre and post-transfer, 40% for CLL	91%	156%	116%	112%
1b. Reserve deterioration – 50% for AGF and CWIL pre and post-transfer, 60% for CLL	45%	110%	73%	65%
2. Investment stress	81%	141%	84%	85%
3a. Reinsurer default scenario	n/a	-	76%	103%
3b. Reinsurer default scenario with haircut	n/a	-	42%	80%
4. Reserve deterioration – 35% for CWIL post-transfer combined with a reinsurer default scenario and haircut of 20%	-	-	-	-1%
5. Reverse stress test	-6%	32%	2%	11%

The results of the stress tests do not take into account any management actions to restore the level of the SCR coverage ratio in the event of one of the scenarios actually happening. Catalina UK's capital policy and risk appetite for each firm is to target an SCR coverage ratio of 140%. I have considered the scenarios below with no allowance for management actions eg calling on the group for additional capital support or any regulatory interaction.

Scenario 1a – Reserve deterioration

This scenario considers a gross reserve deterioration of 30% for AGF and CWIL, and 40% for CLL (to recognise additional volatility in the relatively lower level of reserves), recognised immediately. Examples of such an impact for AGF and CWIL could be a legislative change to the Fatal Accidents Act leading to higher settlements combined with an inflation increase to ultimate run-off. CWIL and CLL could be impacted by adverse settlements on US Asbestos and US Pollution cases together with an adverse outcome on US abuse cases.

I would describe this scenario as unlikely over a one year time horizon and plausible over an ultimate time horizon. AGF's SCR coverage ratio drops to 91% ie below the 100% level required by SII, CLL remains well capitalised and CWIL remains sufficiently capitalised. Post-transfer CWIL remains sufficiently capitalised.

Scenario 1b - Reserve deterioration

This scenario considers a gross reserve deterioration of 50% for AGF and CWIL, and 60% for CLL. I would consider this scenario as extreme over a one year time horizon and plausible but unlikely over an ultimate horizon. Although, other than for CLL, the SCR coverage ratio drops below 100%, there is sufficient capital remaining so that claims can still be paid even in the absence of any mitigation or regulatory intervention.

Scenario 2 – Investment stress

This scenario covers a market shock combining the impact of a number of issues eg a 2 step downgrade of assets, a risk free rate shock of 100bps, the default of the largest non-government obligor, a 35% devaluation of the illiquid assets portfolio and a 15% exchange rate hit on US liabilities. I would consider this scenario as unlikely but plausible. Although, other than for CLL, the SCR coverage ratio drops below 100%, there is sufficient capital remaining so that claims can still be paid.

Scenario 3a – Reinsurer default scenario

This scenario assumes the failure of CatGen at which point the value of the trust fund which is part of the collateral arrangements is transferred to CWIL together with the liabilities. This scenario is not applicable for AGF and is not modelled for CLL due to materiality given the low level of reliance on CatGen. Although the SCR coverage ratio drops below 100% pre-transfer, there is sufficient capital remaining so that claims can still be paid pre- and post-transfer.

Scenario 3b – Reinsurer default scenario with haircut

This scenario is the same as the previous scenario but only 80% of the value of the trust fund is transferred to CWIL ie a 20% 'haircut' is taken on the assets. Although the SCR coverage ratio drops below 100% pre- and post-transfer, there is sufficient capital remaining so that claims can still be paid pre- and post-transfer.

Scenario 4 – Reserve deterioration combined with a reinsurer default scenario and haircut

This scenario assumes a combination of a gross reserve deterioration of 35% for CWIL, the failure of CatGen and a haircut of 20% on the assets held within the collateral arrangements supporting the CatGen quota share reinsurance (ie, this scenario assumes only 80% of the collateral assets are available to pay reinsurance recoveries).

This scenario is only modelled for CWIL post-transfer to illustrate the exposure to a combined reserve deterioration and reinsurer default scenario for the Transferring AGF and CLL Policyholders. The resulting SCR coverage ratio drops marginally below 0% post-transfer.

I consider this scenario to be extreme, since no mitigation is taken into account eg the resetting of the level of collateral, and similar to a reverse stress test, but even in this unlikely situation, claims can substantially still be paid post-transfer.

Scenario 5 - Reverse stress test

This scenario is designed to be extreme in its nature and could end in the insolvency of the insurer. The scenario combines a 50% reserve stress (1b), the investment stress (2), a two-step downgrade on default risk exposures and the loss of 10% of external reinsurance.

As expected, the SCR coverage ratios fall to very low levels although claims can still be paid. AGF's coverage ratio is negative but as assets will still be greater than liabilities, due to the risk margin, claims can still be paid.

Conclusion

Transferring AGF Policyholders

The post-transfer SCR coverage ratios for CWIL are higher than the pre-transfer ratios for AGF. Therefore I have concluded that the Transferring AGF Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

Transferring CLL Policyholders

CLL remains sufficiently capitalised for all scenarios except the reserve stress test. Post-transfer, Transferring CLL Policyholders will be worse off in each scenario. However, CLL is much smaller than CWIL and therefore is exposed to greater potential volatility. CLL will have the protection of a much larger balance sheet post-transfer and, as claims will still be paid in the scenarios I considered, I have concluded that Transferring CLL Policyholders will not be materially adversely affected by the Proposed Transfer in this respect.

Existing CWIL Policyholders

The SCR coverage ratios for CWIL pre-and post -transfer are not materially different, other than the default scenarios where the coverage ratio is higher post-transfer. Therefore I have concluded that Existing CWIL Policyholders will not be materially adversely affected by the Proposed Transfer in this respect.

6.11. Financial strength of CatGen

I have considered the financial strength of CatGen as this is a major reinsurer of CWIL through the provision of the 80% quota share reinsurance arrangement. This reinsurance arrangement will remain in place post-transfer although it will not cover the transferring liabilities from AGF and CLL, other than continuing to cover the 1990 and prior Imperial Re liabilities.

The table below sets out the projected Bermuda SCR and coverage ratio for CatGen after the Proposed Transfer.

CatGen economic balance sheet as at 31 December 2021

US GAAP	$m
Total assets	4,632
Total liabilities	3,557
Excess of assets over liabilities	1,075
Enhanced capital requirement	654
Available economic capital and surplus	1,057
Bermuda SCR coverage ratio	162%

CatGen has over $1bn surplus of assets over liabilities and is well capitalised on the Bermuda SCR basis which has equivalence with SII.

I note that CatGen also writes the reinsurance of a very large run-off portfolio (the subject of the planned Part VII transfer into CWIL in 2024/2025) of employer's liability business which is highly correlated with the Transferring Business and the business written by CWIL. This means CatGen could be affected by concentration risk if there was a systemic issue affecting EL business.

I considered the impact of the failure of CatGen in the scenario analysis in section 6.10 and concluded that even in the event of the failure of CatGen and a 20% haircut in the assets backing the collateral arrangements of the reinsurance, claims would still be paid for policyholders.

6.12. Overall conclusion: Capital considerations

I have set out below my overall conclusions related to capital. These capital considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Based on the work and rationale described above, and in particular based on the scenario analysis which considers ultimate risk in section 6.10, I have concluded that:

- The projected capital requirements have been calculated materially appropriately
- Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders.

7. Policyholder security

7.1. My considerations relating to policyholder security

As IE, my overall assessments related to policyholder security are:

- Whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders.
- Whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- Impact on the balance sheets of AGF, CLL and CWIL (section 7.2)
- Impact on the solvency positions of AGF, CLL and CWIL (section 7.3)
- Reinsurance arrangements (section 7.4)
- Other benefits and guarantees (section 7.5)
- Access to the Financial Services Compensation Scheme (section 7.6)
- Access to the Financial Ombudsman Service (section 7.7)
- Insurance regulation (section 7.8)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.9.

7.2. Impact on the balance sheets of AGF, CLL and CWIL

I have based my analysis on projected balance sheets provided by Catalina UK as at 31 December 2022 and 1 January 2023. This aligns with Catalina UK's modelling timetable and Catalina UK has confirmed that the overall balance sheets would not be materially different as at 30 November 2022 and 1 December 2022 ie Day 0 and Day 1 of the Proposed Transfer.

The table below shows GAAP balance sheets for AGF, CLL and CWIL pre- and post-transfer. The CWIL recoverable losses include the projected CatGen 80% quota share recoveries.

Projected GAAP balance sheets: AGF, CLL and CWIL as at 31 December 2022 and 1 January 2023

£m	AGF 31/12/22	CLL 31/12/22	CWIL 31/12/22	CWIL 1/1/23	Movement
Cash and investments	212.1	35.5	194.2	398.2	(43.5)
Losses and loss adjustment expenses recoverable	7.3	10.5	252.4	269.9	(0.4)
Insurance and reinsurance balances receivable	2.1	7.9	29.4	39.4	0
Other assets	2.7	0.5	2.2	5.4	0
Total assets	**224.2**	**54.4**	**478.2**	**712.9**	**(43.9)**
Reserve for losses and loss expenses	86.5	23.4	302.4	430.5	18.1
Insurance and reinsurance balance payable	0.5	2.1	47.4	49.9	0
Accounts payable & other liabilities	0.8	0.2	0.3	1.3	0
Total liabilities	**87.8**	**25.7**	**350.1**	**481.7**	**18.1**
Assets less liabilities	**136.4**	**28.7**	**128.1**	**231.2**	**(62.0)**

Source: Catalina UK, figures for CLL converted (£1 = USD1.35)

Key movements

The impact of the Proposed Transfer on the assets is a reduction of £43.9m driven by the assets which remain in AGF and CLL above the 140% SCR coverage ratio as follows:

- £27.3m of AGF's assets will not transfer to CWIL representing the excess of capital above the 140% SCR coverage ratio. This is expected to be paid out as a dividend following the de-authorisation of AGF.
- $21.9m/£16.2m of CLL's assets will not transfer to CWIL representing the excess of capital above the 140% SCR coverage ratio. This is expected to be paid out as a dividend following the de-authorisation of CLL.

The impact of the Proposed Transfer on the liabilities is an increase of £18.1m driven by the unwinding of the discount on the AGF liabilities offset by the removal of the intercompany reinsurance between AGF and CLL.

7.3. Impact on the solvency positions of AGF, CLL and CWIL

The projected solvency positions of AGF, CLL and CWIL as at 31 December 2022 and 1 January 2023 are summarised in the following table.

Projected solvency positions of AGF, CLL and CWIL pre- and post-transfer

	AGF £m	CLL $m	CWIL £m
Pre-transfer			
Total own funds eligible to meet SCR	101.3	33.7	103.7
SCR	56.5	10.3	42.4
SCR coverage ratio	**179%**	**327%**	**244%**
Post-transfer			
Total own funds eligible to meet SCR	n/a	n/a	188.1
SCR	n/a	n/a	94.1
SCR coverage ratio	**n/a**	**n/a**	**200%**

AGF is well capitalised pre-transfer and CLL and CWIL are very well capitalised pre-transfer.

Post-transfer, CWIL remains very well capitalised.

The SCR coverage ratio increases for the Transferring AGF Policyholders and so they are not materially adversely affected by the Proposed Transfer.

The SCR coverage ratio decreases for the Transferring CLL Policyholders. However, these policyholders will benefit from the diversification benefits of being part of a larger balance sheet post-transfer and CWIL remains very well capitalised. As such, I do not consider the Transferring CLL Policyholders to be materially disadvantaged by the Proposed Transfer. This is discussed further in section 6.9.

The SCR coverage ratio decreases for the Existing CWIL Policyholders but CWIL remains very well capitalised and, as discussed in section 6.9, I do not consider the probability of insolvency of CWIL to be materially different. I conclude that these policyholders are not materially disadvantaged by the Proposed Transfer.

The SCR coverage ratios above are based on a one-year view of risk. I have considered risk on an ultimate basis in section 6.10.

7.4. Reinsurance arrangements

The reinsurance arrangements will not change as a result of the Proposed Transfer.

Catalina UK are planning to discuss changing the level of the 80% quota share arrangement with CatGen. I discuss the potential impact of such a change in section 6.9.

Conclusion on reinsurance

I am therefore satisfied that Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders are not materially adversely affected by the Proposed Transfer in terms of the reinsurance arrangements.

7.5. Other benefits and guarantees

CLL and CWIL are both required to maintain US Surplus Lines Trust Funds. The funding requirement is calculated by reference to the size of the subject business but is subject to a regulatory minimum. As a result of the size of the subject business, both CLL and CWIL currently hold the minimum value of assets required to be held in the Trust Fund. Following the Proposed Transfer, it is expected that the assets that CWIL currently hold in the US Trust Fund for pre-transfer liabilities will be sufficient for the combined CWIL/CLL liabilities post-transfer.

CWIL is in discussions with the National Association of Insurance Commissioners (NAIC) in the US to close the CLL Surplus Lines Trust Fund and release any assets in excess of the minimum required by CWIL after the Effective Date.

The excess assets are not expected to be released ahead of the Effective Date because, until that time, the NAIC will require them to remain in place as protection for CLL policyholders.

The physical release of those assets will be an action for CLL to take up with the NAIC post-transfer and so they will be part of the retained assets of CLL at the Effective Date.

The Continental Corporation, the former parent of KX Re, now part of CLL, provided two guarantees to the Institute of London Underwriters (ILU) for the liabilities of KX Re as a condition of ILU membership.

Continental executed a deed of variation so that the guarantees would respond in respect of the KX Re liabilities of CLL in connection with the transfer of that business to CLL. Continental has agreed to execute a similar deed of variation in connection with the Proposed Transfer.

The current status is that both parties to the deed, The Continental Corporation and The ILU, have agreed to proceed with having a new deed of variation. They have both reviewed a draft document and have agreed to the form of the draft, subject to minor wording updates.

CLL has an interest in any surplus assets from reinsurance deposit agreements with Citibank relating to letters of credit provided to certain policyholders of Alea London Ltd and KX Re. Similar to the transfer of this interest when KX Re transferred into CLL, Citibank will be asked to transfer these interests from CLL to CWIL as part of the Proposed Transfer on the Effective Date.

In my opinion, given that arrangements are expected to be entered into with the purposes of preserving the effect of the current position, the Transferring CLL Policyholders and the Existing CWIL Policyholders are not materially adversely affected by these arrangements under the Proposed Transfer.

7.6. Access to the Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) in the UK provides consumer protection. This statutory fund of last resort compensates customers in the event of the insolvency of a financial services firm.

If an insurer fails and is unable to pay claims, the FSCS will provide protection to eligible policyholders. The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable.

The protection for non-compulsory insurance only applies to individuals and small businesses (being businesses with an annual turnover of less than £1m).

No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. There is also no protection for reinsurance contracts.

As AGF, CLL and CWIL are UK regulated entities, I do not expect the rights of policyholders in respect of access to the FSCS to change as a result of the Proposed Transfer in that policyholders that have access to the FSCS pre-transfer will continue to have access post-transfer.

7.7. Access to the Financial Ombudsman Service

The Financial Ombudsman Service (FOS) provides private individuals, micro enterprises and small businesses with a free, independent service for resolving disputes with financial companies. For the purposes of the FOS, a micro enterprise is defined as having an annual turnover or balance sheet of less than €2m and fewer than 10 employees, and small businesses are defined to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

AGF, CLL and CWIL are UK companies, so the Transferring Business will continue to be based in the UK. As such, any Transferring Policyholders that are currently eligible for access to the FOS will continue to benefit from this access following the Proposed Transfer.

I do not expect the rights of policyholders in respect of access to the FOS to change as a result of the Proposed Transfer. Any policyholders of AGF, CLL or CWIL who are currently eligible to refer complaints to the FOS will continue to be eligible following the Proposed Transfer.

Catalina UK has confirmed that there are no current complaints of claims with the FOS relating to the Transferring Business.

7.8. Insurance regulation

Prudential regulation

Prudential regulation requires financial firms to control risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way.

The UK is currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements.

CWIL does not underwrite new insurance policies and will not do so following the Proposed Transfer. Catalina's business model is to acquire books of non-life insurance that are in run-off and it has informed me that this model will not change following the Proposed Transfer. Any further acquisitions are subject to approval from the PRA. In addition, as a run-off provider, any extraction of capital from CWIL would also have to be approved by the PRA.

AGF, CLL and CWIL are authorised and regulated by the PRA on prudential matters. Based on this consideration, I do not expect Transferring AGF Policyholders, Transferring CLL Policyholders or Existing CWIL Policyholders to be adversely affected by the Proposed Transfer due to prudential regulation.

Conduct regulation

Conduct regulation of financial firms typically includes consumer protection, market conduct rules and ethical codes of conduct. Conduct is generally regulated by the insurance regulator in the country in which a risk is located and/or the location from which the business is carried out.

In the UK, the Financial Conduct Authority (FCA) is responsible for conduct regulation. The FCA seeks to ensure that consumers are treated fairly in their dealings with insurers. Its rules and guidance include conduct related requirements covering the way in which an insurance firm organises, manages and oversees and governs its business, including codes of conduct, fit and proper requirements and training and competence standards. In addition, conduct regulation covers the full product life cycle, from product design and development, sales and communications with customers, cancellations and claims handling, and complaints handling and compensation.

CLL, AGF and CWIL are regulated by the FCA on conduct matters and I would not expect the conduct regulation to change for policyholders due to the Proposed Transfer. Based on this consideration, I do not expect Transferring

AGF Policyholders, Transferring CLL Policyholders or Existing CWIL Policyholders to be adversely affected by the Proposed Transfer due to prudential regulation.

Conclusion on regulation

As CLL, AGF and CWIL are subject to the same UK based regulatory regime, I have concluded that policyholders will not be adversely affected by the Proposed Transfer from a regulatory standpoint.

7.9. Overall conclusion: Policyholder security

Based on the work and rationale described above, and the scenario analysis which considers ultimate risk in section 6.10, I have concluded that policyholders will not be materially adversely affected by the Proposed Transfer.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of AGF, CLL and CWIL's proposed communication strategy to inform policyholders of the Proposed Transfer and the proposed communication pack to be sent to policyholders.

The key focus of my assessment was whether the categories of policyholders and other stakeholders intended to be notified is appropriate and whether such persons are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

8.2. Overview of communications strategy

AGF, CLL and CWIL have developed a communication strategy to notify affected parties of the Proposed Transfer and allow time for any affected parties to raise objections to the High Court, a copy of which has been shared with me and also made available to the PRA and FCA. I have summarised the main points of the communications strategy below:

- **Transferring AGF Policyholders and reinsurers of AGF:** AGF will notify Transferring AGF Policyholders and reinsurers, subject to the dispensations sought as discussed in section 8.3;
- **Transferring CLL Policyholders and reinsurers of CLL:** CLL will notify Transferring CLL Policyholders and reinsurers, subject to the dispensations sought as discussed in section 8.3; and
- **Existing CWIL Policyholders:** CWIL will notify Existing CWIL Policyholders, subject to the dispensations sought as discussed in section 8.3.

I am satisfied that the communications strategy will ensure that those who will be affected by the Proposed Transfer will be informed appropriately.

8.3. Requested waivers and rationale

AGF, CLL and CWIL intend to request that the High Court grant dispensations from the requirement to directly notify every policyholder (under the wide definition of policyholder in the FSMA Order, which includes beneficiaries of EL policies and other third party claimants) and reinsurers of the Transferring Business of the Proposed Transfer. This waiver request is made on the basis that only the following categories of person will be notified:

AGF

1. All identified AGF policyholders who hold policies in respect of which: (i) there is an open claim; (ii) known case reserves are held; or (iii) a claim has been closed or a claims payment has been made since 1 January 2017, in each case where the policyholder is solvent and the policyholder, or the successor or other responsible party can be identified;
2. All identified legal representatives of claimants currently pursuing claims against the UK EL and PL policies underwritten by AGF; and
3. All reinsurers which have issued contracts in respect of AGF's business where: (i) there are outstanding balances due from the reinsurer; or (ii) an outstanding case reserve or IBNR reserve is allocated in respect of such contract.

CLL

1. All identified cedants of CLL (excluding the reinsurance business within the WFUM pool and the Community Re pool) with policies in respect of which: (i) there is a current open claim; (ii) known case reserves are held; or (iii) a claim was closed since 1 October 2016;
2. All identified policyholders, third party claimants or their legal representatives in respect of policies within the Alea London portfolio in respect of which: (i) there is a currently open claim; or (ii) known case reserves are held;
3. All identified policyholders of CLL's UK EL business which hold policies in respect of which: (i) there is an open claim; (ii) known case reserves are held; or (iii) a claim has been closed or a claims payment has been made since 1 January 2017;
4. All identified legal representatives of claimants currently pursuing claims against the UK EL policies underwritten or assumed by CLL and, in respect of certain football league policies, the lead insurer and panel solicitors;

5. The WFUM pool manager and the Community Re pool manager; and

6. To the extent not included in 1 to 5 above, all other identified direct insurance policyholders and/or identified legal representatives of claimants in respect of policies in respect of which: (i) there is a currently open claim; (ii) known case reserves are held; or (iii) a claim was closed since 1 October 2016. Where a direct insurance policyholder within this category holds a policy underwritten by a broker on behalf of CLL (or the relevant predecessor), it will be requested that the broker notify such policyholder.

7. All reinsurers which have issued contracts in respect of CLL's business where: (i) there are outstanding balances due from the reinsurer; or (ii) an outstanding case reserve or IBNR reserve is allocated in respect of such contract.

CWIL

1. All identified cedants and direct policyholders (excl. UK EL) of CWIL with policies in respect of which (i) there is a current open claim; (ii) known outstanding case reserves are held; or (iii) a claim was closed since 1 October 2016 (save in respect of lines of business identified as fully run-off (i.e. where no new claims have been received since 31 December 2011 and the HFPI portfolio);
2. All identified UK EL policyholders with policies in respect of which (i) there is an open claim; (ii) known outstanding case reserves are held; or (iii) a claim has been closed or a claims payment has been made since 1 January 2017;
3. All identified legal representatives of claimants currently pursuing claims against the UK EL policies underwritten or assumed by the Transferee and, in respect of the football league policies, the lead insurer and panel solicitors; and
4. B. D. Cooke, as the only remaining third party pool manager.

AGF, CLL and CWIL have provided a rationale to support their request for dispensation which included consideration of the judgement of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.) (the Aviva Judgment). The Aviva Judgement summarised the following factors as a rationale for granting a dispensation:

- The impossibility of contacting policyholders;
- The practicality of contacting policyholders;
- The utility of contacting policyholders;
- The availability of other information channels through which notice of the application can be made available;
- The proportionality of strict compliance and the impact of collateral commercial concerns; and
- The likely impact of the Proposed Transfer on policyholders.

I have reviewed this rationale, challenged it and sought additional information in support of the requested waivers where required. I am satisfied that the requested waivers are proportionate and reasonable, and I provide more detail on this below.

Transferring AGF policyholders and reinsurers

As set out above, AGF is requesting a waiver for not contacting those policyholders and other stakeholders that are not listed in the criteria outlined above.

The rationale for not contacting other policyholders, beneficiaries and other potential claimants is summarised below in respect of policyholders falling outside that criteria:

- The transferor (AGF) and the transferee (CWIL) are part of the same group and operate under the same group policies and procedures. There will be no change to the management, administration, capital policy and claims handling arrangements as a result of the Proposed Transfer. The relevant contact details for the notification of claims will remain the same following the Effective Date. Were a policyholder or beneficiary not to be aware of the Proposed Transfer, any claim they made in the future would be referred to the transferee and the transferee will have assumed liability for the claim under the scheme. Therefore, the impact from lack of notification of the Proposed Transfer is materially diminished (utility and impact).
- AGF's data records are limited to the data migrated across to CSUK on 1 January 2017 following AGF's acquisition, any data obtained since that date in respect of new claim notifications and the information contained in AGF's Employers' Liability Tracing Office database (ELD). For other inactive policyholders who have not made a claim since 1 January 2017, the address details on AGF's ELD are expected to be out of date because these derive from the original policy documentation and will not take into account any changes to the policyholder since the date of inception. AGF expect that undertaking a tracing exercise in respect of such inactive EL and PL policyholders would be of limited practical benefit and would require significant resource and cost commitment (practicality, proportionality and utility).
- The non-EL and PL business was short tail and often written on a claims made basis. As a result, it is expected that these policies have expired since AGF was placed into run-off in 1998 and that new claims are time barred. There is a residual risk that somebody who never achieves capacity to make a claim (such as due to severe mental illness) could bring a claim at any point until their death but that risk is considered extremely small and AGF are not aware of any reported incidents or claims in which such a person was involved (proportionality and impact).
- AGF will update the publicly available ELTO register following the Effective Date to confirm that all of AGF's EL policies have transferred to CWIL (so any interested party wishing to initiate a claim can easily verify the identity of their insurer via the ELTO database). ELTO will be notified and asked to publicise the Proposed Transfer on its website (availability of other information channels). I consider that AGF's EL tracing arrangements are reasonable and appropriate.
- Typically, only the parent entity will be named on an EL and PL policy, even if that policy also covers other related entities. It would be impractical and, in many cases, impossible, to trace all covered affiliated, subsidiary or group entities in respect of such policies. AGF will seek to mitigate the impact of this by including a request for all policyholders receiving individual notice to forward notice of the Proposed Transfer to any of their related parties that may be affected by the Proposed Transfer (availability of other information channels and practicality).
- As is typical in the EL market, AGF, as the insurer, does not have details of the employees of each of its UK EL policyholders whose policies form part of the Part VII Transfer or of persons claiming under PL policies. It would be impossible for AGF to obtain these details and individually notify each person who may have a claim in the future in respect of an EL policy, in particular taking into account the length of time over which the UK EL business was underwritten (impossibility and practicality).
- Claims on AGF UK EL and PL policies are generally brought by firms of solicitors on behalf of the relevant employee or member of the public. AGF has undertaken a review of open claims to identify contact details of the solicitors who represent the relevant claimants. AGF considers that notification of these firms is likely to ensure that the Proposed Transfer is drawn to the attention of those persons likely to notify claims under the transferring policies, alongside notification of relevant professional associations (such as the association of professional injury lawyers) (practicality and availability of other information channels). An exception to this is that in relation to EL and associated PL policies issued to a number of football leagues or associations, AGF proposes to notify the lead insurer and the panel solicitors managing the claims, which shall include a request to notify all active claimants or their representatives (practicality and availability of other information channels).

In respect of reinsurers, AGF's rationale supporting the proposal to only write to reinsurers which have issued contracts in respect of AGF's business where: (i) there are outstanding balances due from the reinsurer; or (ii) an outstanding case reserve or IBNR reserve is allocated in respect of such contract is that AGF considers that reinsurance contracts which have no claims or reserves allocated to them are likely to be dormant or exhausted and so are unlikely to receive further claims from CWIL following the Effective Date.

I have reviewed the details of AGF's proposed communication strategy and am satisfied that AGF's requests for waivers, based on the rationale summarised above, are reasonable and proportionate.

Transferring CLL policyholders and reinsurers

As set out above, CLL is requesting a waiver for not contacting those policyholders and other stakeholders that are not listed in the criteria outlined above. The rationale for not contacting other policyholders, beneficiaries and other potential claimants is summarised below in respect of policyholders falling outside that criteria:

- The transferor (CLL) and the transferee (CWIL) are part of the same group and operate under the same group policies and procedures. There will be no change to the management, administration, capital policy and claims handling arrangements as a result of the Proposed Transfer. The relevant contact details for the notification of claims will remain the same following the Effective Date. Were a policyholder or beneficiary not to be aware of the Proposed Transfer, any claim they made in the future would be referred to the transferee and the transferee will have assumed liability for the claim under the scheme. Therefore, the impact from lack of notification of the Proposed Transfer is materially diminished (utility and impact).
- Catalina UK expects that in many cases given the legacy nature of the portfolio and the nature of the system and off-system records held, contact details will not be available and those details that are identifiable will be out of date. Given the number of historical records involved, identifying and notifying such policyholders will be either impractical or impossible and that the costs to do so, while difficult to quantify, are likely to be considerable. Claims will continue to be notified and handled in the same way pre- and post-transfer, whether a policyholder is notified of the transfer or not, and so there will be no impact on policyholders in this regard due to the Proposed Transfer (practicality and impact).
- Based on Catalina UK's experience, analysis of the claims development and the nature of business in mature run-off, Catalina UK considers that it is highly likely that any new claims will arise from the same classes of business for which there are currently open claims and from the same groups of cedants or policyholders that are or who have in the past 5 years been linked to claims activity on the relevant policy. In addition, CLL is intending to notify relevant market bodies and undertake extensive additional advertising (utility, proportionality and availability of other information channels).
- Certain parts of the portfolio were underwritten on a claims made basis. The limitation period for all of the direct insurance policies are considered to have expired and so no new claims notifications are expected (utility and impact). Much of this business was also underwritten by agents, which conduct all policyholder interaction until the point of a claim. As this business has expired it is not practical or proportionate to notify such agents and ask them to assist with notifying policyholders of expired policies (practicality and proportionality).
- The rationale in respect of the UK EL and PL business is the same as set out for AGF above.
- In relation to CLL's pool businesses, CLL will notify the pool managers rather than the individual policyholders. The pool managers maintain all direct dealing with policyholders and claimants. They are responsible for the administration of policies and management of claims. CLL does not hold policy records in respect of this business (practicality). There is also limited claims activity remaining on these pools (proportionality and impact).
- In relation to the business underwritten by KX Re, some of this was underwritten as London Market business via brokers under delegated underwriting authority. Data relating to these policyholders, including contact details, were retained by the broker, and is not recorded on CLL's systems. For those policyholders for which CLL may have records and whose policies were not underwritten by a broker, CLL has estimated the costs of an exercise to identify and locate contact details within such records. An exercise in obtaining the contact details is expected to involve disproportionate resource costs and may not yield any useful results. In addition, given the age of the records, the names and contact details of policyholders would have to be verified by other means (proportionality and utility). For those within the criteria for notification set out above, CLL intends to notify the policyholders via the relevant brokers so far as is practicable.

CLL's rationale in relation to the notification of reinsurers is similar to that set out for AGF above.

I have reviewed the details of CLL's proposed communication strategy and am satisfied that CLL's requests for waivers, based on the rationale summarised above, are reasonable and proportionate.

Existing CWIL Policyholders

As set out above, CWIL is requesting a waiver for not contacting those policyholders and other stakeholders that are not listed in the criteria above. The rationale for not contacting other policyholders, beneficiaries and other potential claimants is summarised below in respect of policyholders falling outside that criteria:

- There will be no change to the management, administration, capital policy and claims handling arrangements as a result of the Proposed Transfer. The relevant contact details for the notification of claims will remain the same following the Effective Date. Were a policyholder or beneficiary not to be aware of the Proposed Transfer, any claim they made in the future would be referred to the transferee and the transferee will have assumed liability for the claim under the scheme. Therefore, the impact from lack of notification of the Proposed Transfer is materially diminished (utility and impact).

- Analysis undertaken on behalf of CWIL indicates that in relation to the non-UK EL business, there has been a significant decrease in claims activity in recent years, which demonstrates that there has either never been any claims activity in relation to a significant proportion of the policies written or there have been no new claims notifications since 2012. CWIL consider that it is reasonable to conclude that no future claims are capable of being made in relation to many lines of business, the policies for which will have long expired because claims on these types of policies would generally only be made during the term of the policy or shortly thereafter (proportionality and utility).
- A high proportion of new claims notifications derive from cedants or policyholders which have previously notified claims. Based on the analysis undertaken it is considered by Catalina UK to be highly likely that any new claims will arise out of the same classes of business where there are currently open claims and from the same groups of cedants and policyholders that are or who have in the past 5 years been linked to claims activity on the relevant contract (utility and proportionality).
- The rationale in respect of the UK EL and PL business is the same as set out for AGF above.

I have reviewed the details of CWIL's proposed communication strategy and am satisfied that CWIL's requests for waivers, based on the rationale summarised above, are reasonable and proportionate.

8.4. Planned notices

I understand that AGF, CLL and CWIL will comply with the appropriate Transfer Regulations and indeed publish notices more widely than strictly required. Notices are intended to be placed in 17 different domestic and international newspapers and key insurance trade publications. They will also be placed in a number of specialist publications for trades which have exposure to long tailed liabilities, and will notify The Employers' Liability Tracing Office (ELTO), amongst other professional associations and market bodies. A list of the publications, as well as the key bodies and associations to be notified, is set out in Appendix 5.

The publications have been chosen as they are well known and widely read titles relevant to corporate policyholders. The specialist trade publications have been selected with the particular aim of reaching the underlying EL claimants from whom potential future claims could emerge.

Both UK and US based publications have been included, given the relatively high proportion of business and claims in those territories, as well as some international publications.

I am satisfied that the approach to advertising the Proposed Transfer is reasonable and proportionate.

8.5. Translation of key documents

Given the US, UK and London Market focus of the Transferring Business, it is proposed that all notices and the major documents (including this report) to be sent in the communication pack will only be in English. If any policyholder or claimant requests translation into another language, this will be arranged and provided free of charge. I am satisfied that this is a reasonable approach.

Should any translations be required, CSUK will arrange for this and I would rely on CSUK to ensure that the translations into each language are accurate.

8.6. Clarity of communication

I have reviewed a draft of the proposed letters, question and answer booklet and scheme and report summaries to be provided to policyholders explaining the background to the Proposed Transfer and the transfer process. I have also reviewed the notices to be provided to be published.

I am satisfied that these documents are clear, fair and not misleading.

8.7. Overall conclusion: Policyholder communications

Based on my review of the communication strategy, I have concluded that the planned communications strategy will ensure adequate and proportionate notice of the Proposed Transfer to the most likely affected parties.

AGF, CLL and CWIL are applying for a number of dispensations from communicating to some affected parties, each of which is supported by an appropriate rationale.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that Catalina UK has sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

9. Customer service and other considerations

9.1. Customer service

I have reviewed the customer service arrangements of AGF, CLL and CWIL. The same corporate governance document setting out authority and procedures applies to all of AGF, CLL and CWIL. This will continue following the Proposed Transfer and so I have concluded that there will be no material changes to policyholder administration and claims handling, ie the policyholder experience, in respect of:

- Transferring AGF Policyholders;
- Transferring CLL Policyholders; and
- Existing CWIL Policyholders.

All AGF's, CLL's and CWIL's known Employer's Liability policy records have been voluntarily uploaded to ELTO. Regular audits of the ELTO arrangements have not identified any issues. Given this, I am satisfied with the quality of AGF, CLL and CWIL's EL tracing arrangements.

CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This means there will be no change to the claims experience and there is continuity of service for Transferring AGF Policyholders.

CSUK has retained a third party administrator to handle high volume/low value loss of hearing claims. In addition, a small number of US construction losses are handled by a Catalina US company and a small number of French construction losses are handled externally. There will be no change in these arrangements post-transfer.

None of the service level agreements or contracts between AGF, CLL, CWIL and CSUK, or between CSUK and any outsourced claims handling provider will change as a result of the Proposed Transfer.

As such, I have satisfied myself that no will be no change in service levels following the Proposed Transfer.

9.2. Tax implications

Catalina UK has informed me that they do not anticipate any material tax implications for policyholders as a result of the Proposed Transfer.

There are several types of tax that potentially impact the premium policyholders are charged:

- Corporation tax: this is levied on profits and policyholders are not directly affected by AGF, CLL or CWIL's obligation to pay corporate tax.
- Value added tax (VAT): policyholders do not pay VAT on insurance premiums.
- Insurance premium tax (IPT): the applicable IPT rate for each policyholder is determined by the location of the risk insured which will not change. Therefore, the amount of IPT charged will not be affected by the Proposed Transfer.

As all the business written by the transferors and transferee is now in run-off, there are no tax implications of the Proposed Transfer on any group of policyholders.

9.3. Pension arrangements

None of AGF, CLL or CWIL have any employees or are sponsors of any pension schemes.

Therefore, I do not consider there to be any pension arrangements that would materially adversely affect any group of policyholders as a result of the Proposed Transfer.

9.4. Investment management implications

Investment management is partly managed by Catalina Group and partly outsourced to specialists outside the Catalina Group. The same investment management companies will continue to be used following the Proposed Transfer.

Catalina UK's Strategic Asset Allocation (SAA) has the same tactical range for each entity split between cash/government assets, investment grade corporate bonds, structured assets, high yield credit assets and return-seeking assets. Cash and investment grade corporate bonds account for 60-70% of each entities' investments.

This tactical range will remain the same for CWIL post-transfer.

The asset portfolio backing 100% of the technical provisions consists of a portfolio of 110% investment grade quality assets. The SAA is followed to construct a portfolio of fixed income investment grade securities from a range of asset classes eg government bonds, investment grade corporate bonds.

Catalina UK's investment strategy is to seek a higher return on those assets held in excess of those backing the technical provisions.

Other than some changes to the maximum limits per class in the 2022 Strategic Asset Allocation, there are no planned changes to Catalina UK's investment risk appetite in respect of AGF, CLL or CWIL or management. I am satisfied that the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL Policyholders are not materially adversely affected in terms of investment management as a result of the Proposed Transfer.

9.5. Implications for ongoing expense levels

All costs and expenses incurred relating to the Proposed Transfer will be borne by AGF, CLL and CWIL and will not be borne by policyholders. One-off costs associated with the Proposed Transfer are expected to be modest relative to the size of the Transferring Business and existing portfolios of AGF, CLL and CWIL.

Therefore, there are no impacts for any group of policyholders as a result of any changes to ongoing expense levels.

9.6. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due.

The Catalina UK investment policy applies to AGF, CLL and CWIL. It applies the same liquidity rules to all three entities and these rules will continue for CWIL post-transfer.

For example, the amount of illiquid assets (where liquidity is defined as more than 30 days) is limited to the lower of 30% of the total portfolio or the equity capital held. Also, the 110% investment grade asset portfolio backing the technical provisions should comprise a minimum of at least 50% liquid assets (where liquidity is defined as less than 5 days).

As the liquidity policy will not change as a result of the Proposed Transfer, I do not anticipate any materially adverse impacts on the liquidity position for any group of policyholders as a consequence of the Proposed Transfer.

9.7. Impact of other transfers

Section 3.5 contains details of a planned transfer into CWIL of a portfolio of EL liabilities written by Zurich Insurance plc. I am not aware of any other future transfers into or out of CWIL will affect any of the transferring policyholders or the existing policyholders in CWIL.

Any future transfers would need to go through a separate Part VII Court process to ensure that policyholders would not be materially adversely affected.

9.8. Set-off

I have considered whether the Proposed Transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of AGF, CLL or CWIL. Set-off is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other and paying only the balance.

Catalina UK has confirmed that there are no changes in set-off rights as a result of the Proposed Transfer. I have also not identified any material set-off rights as part of my review.

Therefore, considerations around set-off do not impact my conclusions.

9.9. Overall conclusion: Customer service and other considerations

Based on the work and rationale described above, I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.

10. Conclusions and Statement of Truth

10.1. Conclusion

I have considered the Proposed Transfer and its likely effects on the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL Policyholders and the reinsurers of the Transferring Business.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- The security provided to Transferring AGF Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Transferring AGF Policyholders following the Proposed Transfer.
- The security provided to Transferring CLL Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Transferring CLL Policyholders following the Proposed Transfer.
- The security provided to Existing CWIL Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Existing CWIL Policyholders following the Proposed Transfer.
- Reinsurers of AGF and CLL who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

10.2. Issues to highlight

I consider it necessary that I review the most recent information, up to the date of the Sanctions Hearing for the Proposed Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

Specific issues that I have highlighted in this report which require further review include:

- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update from the AWP regarding trends in asbestos claims;
- Any update on Catalina UK's capital management plans, including capital extraction plans;
- Any update on CWIL's quota share reinsurance with CatGen;
- The impact of any commutation of CLL's reinsurance of AGF's liabilities; and
- Any policyholder objections received.

I will consider these points further as part of my Supplementary Report.

10.3. IE duty and declaration

My duty to the High Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I have complied with that duty.

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I confirm that I am aware of the requirements applicable to experts in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

Stewart Mitchell FIA
Partner

12 July 2022

Professional standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with Catalina UK (Our Client).

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing. We accept no liability to anyone who is not Our Client.

If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please make it clear that we accept no liability towards them.

About Lane Clark & Peacock LLP

Appendix 1 – Glossary

Term	Definition
Asbestos Working Party (AWP)	An actuarial working party in the UK that has performed extensive work based on UK market data to estimate the total claims cost of UK asbestos-related claims
Best estimate	An estimate prepared with no margin for either prudence or optimism.
Bornhuetter-Ferguson (BF) method	A blend of development factor modelling and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a policy year.
Cede	When a company reinsures its liability with another. The insurance company that purchases reinsurance is the ceding company that cedes business to the reinsurer.
Counterparty default risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Decay pattern	An assumption as to how claim volumes or numbers will run-off over time, eg how the number of deaths each year from mesothelioma are expected to fall over time
Development Factor Modelling (DFM)	An actuarial method for estimating future claims development using assumptions based on past patterns of claims development. Development could mean the reporting of claims, payment of claims or the progression of case reserves.
Effective Date	The date when the Proposed Transfer is expected to occur, is currently expected to be on 30 November 2022 after the Sanctions Hearing which is scheduled for 18 November 2022.
Events not in data (ENIDs)	An estimate of possible future events or developments that are not reflected in the insurer's historical data. Insurers need to make allowance for ENIDs in their Solvency II technical provisions.
Existing CWIL Policyholders	Policyholders of CWIL at the time of the Proposed Transfer, who will remain with CWIL after the Proposed Transfer.
Expected Loss Ratio method	An actuarial method for estimating future claims development based on combining an exposure measure and an assumed rate per unit of exposure (the initial expected loss ratio).
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is a free service that settles complaints between consumers and business that provide financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK's Corporate Governance and Stewardship Codes.
Financial Services and Markets Act 2000 (FSMA)	The legislation, Part VII of which, governs the transfer of (re)insurance business between (re)insurance undertakings.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.

Term	Definition
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
High Court	The High Court of Justice of England and Wales.
Incurred but not enough reported (IBNER)	See definition of IBNR.
Incurred but not reported (IBNR)	The provision for claims that may be reported in the future but relate to events that have already occurred. This also includes provision for possible future development of existing open claims, ie those that have been reported but not fully settled. The provision possible development of open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
MCR coverage ratio	The MCR coverage ratio is the ratio of own funds to Required Capital (MCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Occupational disease	A disease contracted primarily as a result of an exposure to risk factors arising from work activity. For example, exposure to asbestos is associated with a number of diseases, including mesothelioma, asbestosis, pleural thickening and various cancers.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled Statement of Policy – The PRA's approach to insurance business transfers – April 2015
Proposed Transfer	The proposed insurance business transfer from CLL and AGF to CWIL under Section 111(1) of the FSMA.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates under the regulatory framework implemented under the FSMA and the Financial Services Act 2012.
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.

Term	Definition
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, CatGen provides quota share reinsurance to CWIL.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, eg due to the insolvency of the reinsurer.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Risk Appetite	Risk appetite is the amount and type of risk that an organization is prepared to pursue, retain or take. As part of their risk appetite statement, AGF, CLL and CWIL all target a SCR coverage ratio of 140%.
Scheme Document	A document submitted to the High Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the High Court.
SCR coverage ratio	The ratio of an insurer's available capital to its Required Capital (SCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer (all else being equal).
Solvency Capital Requirement (SCR)	The amount of capital an insurer is required to hold under Solvency II regulations. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 event). If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency Financial Condition Report (SFCR)	Solvency II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency II	The system for establishing (among other things) minimum capital requirements for UK insurers under the Solvency II Directive 2009/138/EC as implemented in the UK.
Standard formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Tier 1 capital	Under Solvency II, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Transferee	The insurer to which the business is being transferred, Catalina Worthing Insurance Limited (CWIL).
Transferor	The insurer from which the business is being transferred, being Catalina London Limited (CLL) and AGF Insurance Ltd (AGF).
Transferring Policyholders	CLL and AGF policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.

Term	Definition
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies. This appears as a liability on the insurer's balance sheet since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

Summary of agreed scope of work

The Company wishes to undertake a business transfer under Part VII of the Financial Services and Markets Act 2000 to consolidate the liabilities of CWIL, AGF and CLL into one UK regulated entity.

Stewart Mitchell will be the Independent Expert in respect of the Transfer, and will be the partner responsible for LCP's services.

The key deliverables from the work will be:

- The main IE report, including amendments required following the PRA/FCA's review, and a summary of this report to support policyholder communications for the Directions Hearing;
- A supplementary IE report for the Sanctions Hearing;
- Any additional work required by the PRA/FCA following their review of the IE reports;
- Presenting my findings as IE to court, if required, and responding to any queries and additional court requests.

The Reports and any other analysis, advice and opinions in respect of the Transfer will be in accordance with the relevant requirements set out in Part VII of the Financial Services and Markets Act 2000 (and associated supplemental guidance).

Appendix 3 – CV of Stewart Mitchell FIA

Fellow of the Institute and Faculty of Actuaries, with almost 35 years' experience in insurance, both in industry and as a consultant for over 20 years.

Part VII and Section 13 transfers

- Independent Expert for five Part VII transfers and the Independent Actuary for one Section 13 transfer in recent years.
- Peer reviewer on a number of other Part VII transfers and performed analysis to support Independent Expert's conclusions.

Regulatory experience

- Led the work on a number of Section 166 reviews.
- Performed a number of wide-ranging regulatory projects relating to policies and documentation.

Reserving

- Provides independent reserving review for a number of insurance companies, as well as public sector bodies with insurance liabilities. Experience covers all major classes of business. Significant expertise in reserving EL/PL business including asbestos and other industrial disease claims.
- Signed Lloyd's, Bermuda, Lichtenstein and HMRC tax opinions.
- Experience of many more company and syndicate reserve reviews by providing actuarial audit support.
- One of the most experienced signing actuaries in the Lloyd's market, signing up to nine opinions in a single year end.

Risk and capital

- Led capital modelling projects and reviews of Solvency II technical provisions.
- Worked on a number of due diligence projects reviewing the level of held reserves and capital both pre- and post-merger.

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. A director of AGF, CLL and CWIL has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by Catalina UK for the Proposed Transfer, including:
    - Scheme Document (draft dated 3 March 2022)
    - First Witness Statement for AGF, CLL and CWIL (dated 22 February 2022)
- Draft proposed communication plan and communications prepared by Catalina UK
    - Proposed communication plan (dated 14 January 2022)
    - Template letters to the Transferring Policyholders and other stakeholders
    - Summary of the Scheme Document of the Proposed Transfer
    - Q&A booklet
    - Form of legal notice
- A legal opinion prepared by the US colleagues of Catalina UK's UK lawyers in connection with the recognition of the Proposed Transfer in the US
- Documents relating to provisions and reserving processes, including:
    - Actuarial reserving reports for AGF, CLL and CWIL (as at 30 June 2020)
    - Actuarial reserving committee reports for AGF, CLL and CWIL (as at 30 June 2021)
    - Actuarial Function Reports for AGF, CLL and CWIL (dated 17 May 2021)
    - Reserving Policy for Catalina UK (dated 17 December 2020)
    - Reserving Committee Terms of Reference (dated 9 November 2020)
    - External actuarial reserving reports for AGF and CWIL (as at 30 June 2021)
    - Various reserving scenarios for AGF and CWIL (as at 30 June 2021)
- Documents relating to capital and related processes, including:
    - Catalina UK Solvency and Financial Condition Report (as at 31 December 2020)
    - Catalina UK Own Risk and Solvency Assessment report (dated 26 February 2021)
    - Solvency II returns for AGF, CLL and CWIL (as at 31 December 2021)
    - Annual report and financial statements for AGF, CLL and CWIL (as at 31 December 2021)
    - Note on standard formula appropriateness (provided on 24 March 2022)
    - Standard formula models for AGF, CLL and CWIL (as at 31 December 2021)
    - Catalina UK Capital Management Plan (dated 14 December 2021)
    - Various capital scenarios for CWIL post-transfer
    - Various scenarios for AGF and CLL, including scenarios in respect of the Transferring Business and sensitivities relating to CatGen liabilities.
- Other evidence prepared by Catalina UK to support the Proposed Transfer, including:
    - Projections of future balance sheets and capital requirements at the point of the Proposed Transfer
    - Projections of future balance sheets and capital requirements up to 31 December 2024
- Data accuracy statement
    - A director of AGF, CLL and CWIL has provided data accuracy statements confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.

- The Catalina UK project steering group comprising directors and executives of AGF, CLL and CWIL have read this IE Scheme Report and have confirmed that it is correct in terms of all factual elements of the Proposed Transfer.

Appendix 5 – Planned notices

As described in section 8.4, Catalina UK will comply with the regulation and place notices of the Proposed Transfer in 17 different domestic and international newspapers and key insurance trade publications. They will also place notice of the Proposed Transfer in a number of specialist publications for trades which have exposure to long tailed liabilities, including The Employers' Liability Trading Office (ELTO). A list of the publications, as well as the key bodies and associations to be notified, is set out below:

List of publications

National and regional publications	London Market and Insurance publications	International publications	Trade publications
• London, Edinburgh and Belfast Gazettes • Financial Times (UK edition) • Daily Mail • Daily Mirror • The Times • The Sun	• Business Insurance • Insurance Age • Insurance Day • Insurance Times • Post Magazine	• Financial Times (international edition) • Insurance Day (worldwide edition) • New York Times • USA Today	• PI Focus Building • Construction News • Glass Times • The Law Society Gazette • The Grocer • The Engineer • Electrical Times • The Chemical Engineer • The Woodworker • Marine Professional • Farmers Weekly

Key market bodies and associations

- Association of British Insurers
- Association of Insurance and Reinsurance Run-Off Companies
- Association of Insurance and Risk Managers in Industry and Commerce
- Association of Personal Injury Lawyers (APIL)
- British Insurance Brokers' Association
- Employers' Liability Tracing Office (ELTO)
- Insurance and Reinsurance Legacy Association
- Institute of London Underwriters
- Forum of Insurance Lawyers
- Ministry of Justice
- London and International Insurance Brokers Association
- London Market Claims Service
- Reinsurance Association of America
- US National Association of Insurance Commissioners

Appendix 6 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the PRA's Statement of Policy (dated January 2022) – 'The PRA's approach to insurance business transfers' and the guidance from Chapter 18 of the Supervision Manual of the FCA Handbook.

The guidance references for PRA x.x are taken from the PRA Policy Statement and FCA x.x are taken from Chapter 18 of the Supervision Manual.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.2 (page 15)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the PRA	2.2 (page 15)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.2 (page 15) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest	2.2 (page 15)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.3 (page 16)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 23)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 19)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4
PRA 2.30 (8A)	(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible	Not applicable
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.5 (page 17)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable	2.5 (page 17)

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) Transferring Policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee (d) any other relevant policyholder groupings within the above that the independent expert has identified	1.3 (page 7) 10 (page 67)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	1.3 (page 7) 10 (page 67)
PRA 2.30 (12A)	Their definition of 'material adverse' effect	2.8 (page 18)
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme	10 (page 67)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.12 (page 39) Capital: 6.12 (page 52) Policyholder security: 7.9 (page 57) Policyholder communications: 8.7 (page 63) Customer service and other considerations: 9.9 (page 66)
PRA 2.30 (15)	An outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders	3.6 (page 23)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 21)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 21)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.5 (page 23)
PRA 2.33 (2) FCA 18.2.36 (2)	State whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with	3.4 (page 23)

Guidance reference	Guidance	Scheme report reference
PRA 2.33 (2A) FCA 18.2.36 (3)	Analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion	Reserving: 5.12 (page 39) Capital: 6.12 (page 52) Policyholder security: 7.9 (page 57) Policyholder communications: 8.7 (page 63) Customer service and other considerations: 9.9 (page 66)

Guidance reference	Guidance	Scheme report reference
PRA 2.33 (3) FCA 18.2.36 (4)	Include the independent expert's views on: (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing; (aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets; (aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements; (aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme; (b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights, (ii) levels of service provided to policyholders, (iii) for long-term insurance business, the reasonable expectations of policyholders; (c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and (d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions	(a) to (aaaa): 6 (page 41) (b) 9 (page 64) (c) 9.2 (page 64) (d) 6.9 (page 47)

The Proposed Transfer does not involve a mutual company. As such, PRA 2.35 and FCA 18.2.38 do not apply.

The Proposed Transfer does not involve any long-term insurance business. As such, PRA 2.36 and FCA 18.2.39 do not apply.

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